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PORTS CANADA PROFILE

"Ports Canada" describes a federal system of ports administered pursuant to the *Canada Ports Corporation Act* which was proclaimed in 1983. Seven of these ports are autonomous local port corporations located in Halifax, Montréal, Prince Rupert, Québec, Saint John, St. John's and Vancouver. The other ports are administered on a divisional basis by the Canada Ports Corporation and are located in Belledune, Chicoutimi/Baie des Ha! Ha!, Churchill, Port Colborne, Prescott, Sept-Îles and Trois-Rivières.

Ports Canada handles nearly half of the overall Canadian port traffic and more than 95 percent of container traffic. It is, therefore, an effective means for the implementation of the national ports policy. The policy provides for, at the best cost possible, and in a manner equitable to all users, the services necessary for Canada's international shipping trade at national, regional and local levels.

The system operates on a decentralized basis; each of the local port corporations functions with a high degree of autonomy in the administration of their own port. In providing a public service, the ports are administered according to common commercial principles.

The Canada Ports Corporation's National Office is located in Ottawa.

If you would like to receive a copy of the annual report, please write to Ports Canada, Corporate Services, 99 Metcalfe Street, Ottawa, Ontario K1A 0N6.

Pour recevoir ce rapport en français, prière de vous adresser à Ports Canada, Services de la Société, 99, rue Metcalfe, Ottawa (Ontario) K1A 0N6.

MESSAGE FROM THE CHAIRMAN OF THE BOARD

The *National Transportation Act* and the Free Trade Agreement are major events now having an impact on the Canadian transportation system. The purpose of the *National Transportation Act* was to encourage modes of transport in Canada to become more innovative and efficient with the objective of making Canadian industry more competitive in markets, at home and abroad. The Free Trade Agreement enhances north-south commerce and although we do not see an immediate direct impact on our ports, we anticipate an increase in activity as Canadian industry improves its competitive position with the new and enhanced economies of scale available in the continental market.

World trends in the delivery of manufactured goods indicate that highly competitive, cost effective intermodal delivery continuums are evolving, where just-in-time deliveries with point-to-point pricing win the carriage contracts.

Canadian transportation entities are in a catch-up transition period as they plan entry into the continental and global transportation systems that are emerging. Because our ports are rail dependant, our concern continues for the competitive viability of Canadian railroads vis-a-vis their US counterparts.

It is now apparent that Canadian railroads have difficulty competing with their US counterparts on long-distance container hauls. Our interest in the competitiveness of inland transportation continues because Ports Canada has, at the present time, $500 million in its five-year capital plans, most of which is dependant on cost effective rail transportation. The market projections, on which these new capital programs are based, will have to be revised unless the federal and provincial governments cooperate to give the Canadian railway and trucking industries the adjustments they need in order to compete on equal terms with their US counterparts. We will continue to work at our catalyst role in seeking a resolution of matters that impact negatively on Canadian transport modes and thus their ability to serve our ports.

The Boards within the Ports Canada system continue to serve well their commercial and social obligations. The objective of financial self-sufficiency and the protection of assets carries a high priority with all boards in the system.

We continue to work for a more efficient and mature approval process, not only within the Ports Canada system, but, with the central agencies of government. In this regard, we continue with negotiations for amendments to delegated authorities and continue to seek concensus for amendments to the *Financial Administration Act*.

The Board of Directors was saddened by the passing of the Honourable Jean Marchand. Mr. Marchand was a valued and respected member of the Board, and was an active member of the Police Committee of the Board. He was greatly respected for the able way he represented the interests of the people of Québec and the Port of Québec. We miss Mr. Marchand and carry great respect for his donation to Canada.

On behalf of the Board of Directors, I thank the President, Mr. Jean Michel Tessier, officers and staff for the loyalty and dedication they continue to give to the Corporation and to the Ports Canada system.

We are pleased to congratulate the Honourable Benoît Bouchard, P.C., M.P. on his reappointment as Minister of Transport. We, in the Ports Canada system, look forward to a year of hard work and accomplishment under his able direction.

The Honourable A.R. Huntington
Chairman of the Board

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Major strides were made in 1988 on all fronts towards the achievement of the Corporation's objectives. The year marked my first full year as the President and Chief Executive Officer of the Canada Ports Corporation. My primary objective, set out upon my arrival in 1987, was the strengthening of the bond that ties the Ports Canada ports together. In the spirit of enhancing economies of synergy, all ports agreed upon a collective general liability insurance policy with attendant sizable savings in our overall insurance premiums.

In a similar vein, we received the shareholder blessing in our efforts to institute a dividend/interport loan mechanism that would see our dividend payments reduced, while enabling us to increasingly rely on our own funds for viable port projects. This was not an insignificant accomplishment as it confirmed our progress toward maturity in a measurable way. Consistent with this progress was our initiative to reassess our delegation of authority instrument in light of current realities and the renewed sense of vision for a port administration in which all Canadians would take pride. Negotiations are presently underway with the shareholder to arrive at a comprehensive delegation of authority package that would reduce the administrative burden on the government while ensuring sufficient flexibility to successfully meet the challenges of competition in the decades to come.

The eighties have been characterized by increased competition as new regulatory regimes were adopted both in Canada and the US. We are keenly aware of the competitive milieu in which our ports operate. Success in such an environment depends, to a large extent, on the ability of an organization to interpret fast-changing trends and respond to emerging opportunities in a proactive manner. Following a two-year study of every aspect of the North American container market, we completed our competitive strategy in the fall of 1988. The findings were then presented to a wide range of senior industry representatives from across the country with remarkable success. Confirming our catalyst role, attention was drawn to the fragile nature of our competitive positioning with possible steps to prevent erosion of our recognized niche in some segments.

Important steps were taken to propagate the benefits of electronic data interchange (EDI) within the Ports Canada system and the entire marine community through the establishment of an EDI Committee composed of members of boards and staff of this Corporation as well as major LPCs. The objective of the Committee is to promote the use of EDI within and among Ports Canada ports, among port users and within the ocean and intermodal transportation industry. Through the activities of the EDI Committee, we intend to enhance our catalyst role in such a critical development.

For long, the significance of ports to national and regional economies were either unrecognized or ignored. Ports are major engines of economic progress. In recognition of this fact, Ports Canada took the lead and commissioned a study of the economic impact of our ports on a local, regional, and national level. A total of 55,445 direct and induced jobs, along with 392,000 related jobs, depend on our operations nation-wide, with a revenue impact of $5.4 billion and personal income impact of $2.7 billion.

The adoption of the free trade accord between Canada and the US marks the dawn of a new era for both countries. We must be able to adapt to new competitive forces to successfully meet the challenges imposed by the new environment. Canada has one of the most accomplished port systems in the world. We intend to do our share to ensure this lead is maintained.

Most divisional ports have been facing the challenge of marginal operating results. Following a comprehensive study of the viability of these ports, major efforts were made to identify viable alternatives to enhance business potentials, while at the same time keeping costs to a minimum. Bright prospects have emerged on the horizon for some, while soul searching must go on for others.

The greatest challenge of all is facing the Port of Churchill, which suffered a significant operational loss due to poor grain shipments. The Corporation is currently seeking viable alternatives to improve the port's financial performance. On a more promising note, our elevator at the Port of Prescott was leased to Elders Grain. This reaffirmed our long-standing policy of close cooperation with the private sector and our support of the government's privatization program.

In accordance with my statutory obligation, it is a pleasure for me to inform the Board of Directors, and the shareholder, that the Corporation made measurable progress in achieving its objectives; and that necessary procedures and controls are in place to ensure the safeguard of the Corporation's assets.

All in all, the year 1988 was marked with numerous bright spots. Our dedication to excellence, our determination to lead, and our resolve to succeed placed us on a path paved with excitement and challenge.

I must acknowledge a supportive Board of Directors, a cooperative port system and, above all, a dedicated staff, without whose contributions our achievements would have been pale.

J. M. Tessier

Jean Michel Tessier
President and Chief Executive Officer

PORTS CANADA FINANCIAL REVIEW

Revenues from operations of Ports Canada amounted to $171 million in 1988. Although the drought in the Prairies resulted in a disappointing year for grain traffic, the revenue level of 1987 was surpassed due to higher volumes in other commodities. Of particular note were marked revenue increases at Vancouver, Saint John and Halifax where substantial traffic gains were reported.

Operating expenses of $143 million reflect stepped-up promotional efforts on the part of several ports, as well as continuing facilities maintenance and repair programs. Operating income of $29 million was recorded for 1988 while funds from operations, being operating income before depreciation, were $56 million. Investment income was $21 million in 1988 reflecting a larger investment base at several ports, as well as an increase in the level of interest rates. Funds generated in this manner are slated for future capital projects and other requirements of Ports Canada.

The net income for Ports Canada, before the $4 million share in the loss of Ridley Terminals Inc., was a record $63 million in 1988. The significant improvement in net income included gains on sales of land of $11 million, as well as a $2 million adjustment to grants in lieu of municipal taxes.

In 1988, Ports Canada declared dividends of $12 million based on the 1987 financial results. The Treasury Board has authorized that these dividend payments, as well as those to be made in 1989, be used to establish an interport loan fund. This fund will be administered by the Canada Ports Corporation on behalf of the eight Ports Canada corporations and will assist in providing financing for capital projects.

Ports Canada made capital expenditures of $50 million during 1988, $46 million of which was provided by working capital. Capital expenditures included the renovation and enlargement of port facilities at Montréal, Vancouver, Halifax, Sept-Îles, and Churchill.

Ports Canada Five Year Financial Review

(in millions except for average number of employees and ratios)

	1988	1987	1986	1985	1984
Financial results					
Revenue from operations	**$ 171.1**	$ 169.9	$ 159.9	$ 153.7	$ 157.1
Operating expenses	**142.5**	140.0	138.1	130.3	129.6
Operating income	**28.6**	29.9	21.8	23.4	27.5
Investment income — net	**20.9**	16.0	18.9	26.8	24.2
Net income before RTI*	**62.9**	46.1	42.1	51.9	57.8
Cash provided by operating activities	**96.2**	69.3	58.1	76.4	74.6
Financial position at year end					
Working capital	**$ 183.0**	$ 148.6	$ 114.2	$ 211.7	$ 189.8
Fixed assets — at cost	**1,056.9**	1,015.4	990.1	962.3	914.0
Total assets	**960.4**	895.5	863.5	974.2	926.1
Equity of Canada	**785.5**	737.4	227.8	322.3	275.3
Capital expenditures	**$ 49.7**	$ 33.8	$ 50.2	$ 64.1	$ 96.6
Federal capital financing					
Grants	**$ 2.8**	$ 2.1	$ 13.5	$ 14.3	$ 35.4
Loans	**1.0**	1.0	4.1	5.2	4.9
Recoverable contribution	**—**	—	—	—	0.4
Employees					
Average number of employees	**1,291**	1,344	1,452	1,517	1,637
Ratios					
Operating revenue/tonne	**$ 0.92**	$ 0.98	$ 0.99	$ 0.99	$ 0.95
Tonnes/employee	**144,711**	129,455	110,840	102,307	100,672
Cash from operating activities/ total assets	**10.0%**	7.7%	6.7%	7.8%	8.1%

* Ridley Terminals Inc.

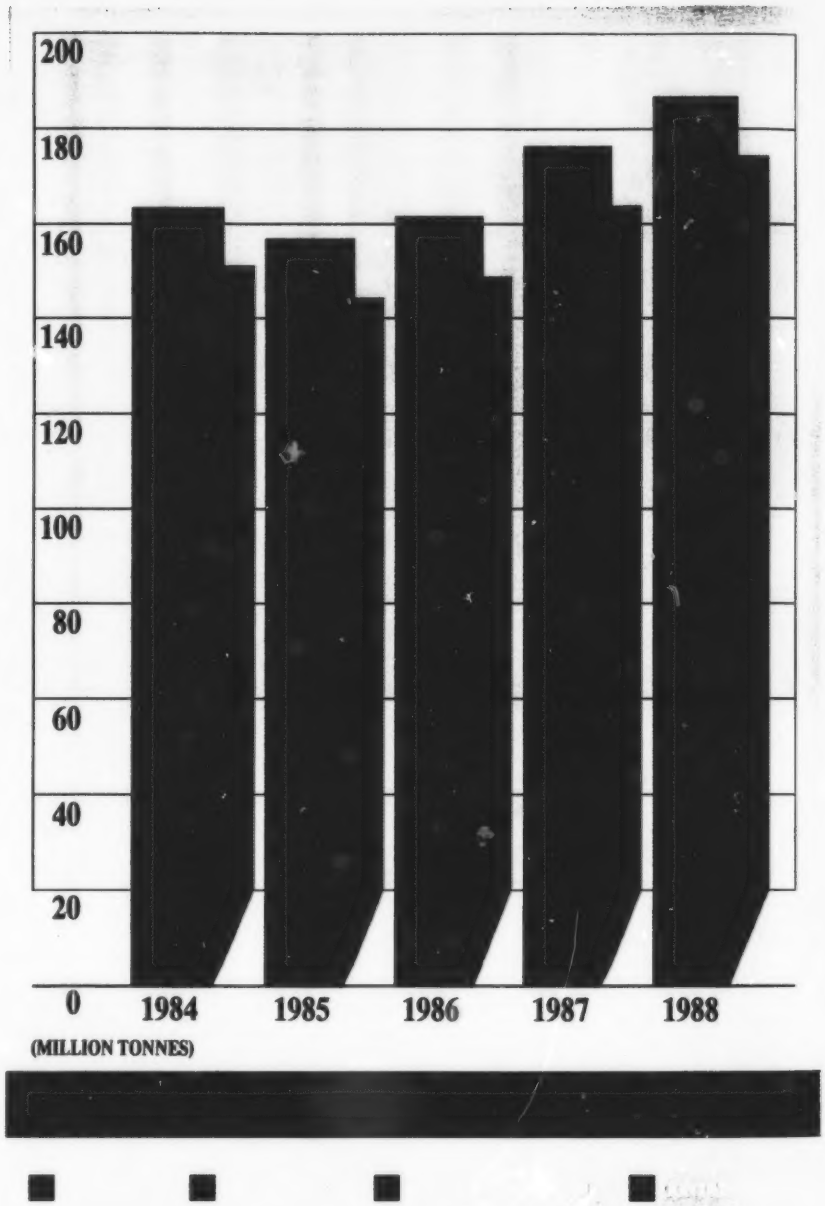
PORTS CANADA REVIEW OF TRAFFIC

Total 1988 cargo volume through the Ports Canada system, including private facilities located within the harbour limits, and Ports Canada berths, was up 7.4-percent over 1987 to 186.8 million tonnes from 174 million tonnes. Of this total, 156.3 million tonnes were handled collectively by the seven local port corporations and 30.5 million tonnes by the Canada Ports Corporation. The major portion of this growth was accounted for by an increase in coal traffic through the ports of Vancouver, Québec and Prince Rupert. Other areas of growth in tonnage across the port system were liquid bulk (including petroleum) and containerized cargo.

Total tonnage handled through Ports Canada berths in 1988 was 82.7 million tonnes, up from 79.4 million tonnes recorded in 1987. The seven local port corporations handled 78.8 million tonnes, up 5.2-percent from 74.9 million tonnes handled the previous year. Total tonnage through the Canada Ports Corporation was down in 1988 to 3.9 million tonnes from 4.5 million tonnes in 1987.

Total grain shipments handled across the Ports Canada system were down 18-percent from 31.7 million tonnes in 1987 to 26 million tonnes in 1988. The ports of Churchill, Montréal, Prince Rupert, Québec and Trois-Rivières were particularly hard hit by the Prairie drought which reduced western grain production significantly. The major markets for Canadian grain are China, the Soviet Union and Japan which account for over half of all exports. The remainder of Canadian grain is sold to over eighty other countries world-wide.

Coal shipments increased significantly to 32 million tonnes from 25.4 million tonnes in 1987. This 26-percent increase was attributed to a healthier global economy, which resulted in a 10-percent increase in crude steel production in the western world and a 9-percent increase in Japan over the previous year. As well, with production problems in Australia and China, the producers in these two countries were unable to meet demand, which further increased opportunities for Canadian coal.



A record 12.5 million tonnes of containerized traffic, or 1.4 million TEUs (twenty-foot equivalent units) were handled through Ports Canada facilities, up from 11.2 million tonnes in 1987. The Port of Halifax led the way with a growth of 27-percent from the previous year, followed by Vancouver with an increase of 14-percent and Montréal with an increase of 4-percent. Containerized traffic remains strong although there continues to be concern over the potential for greater diversion of Canadian cargo through US ports. Non-containerized cargo has also maintained good momentum with year-end volumes running 11-percent ahead of last year.

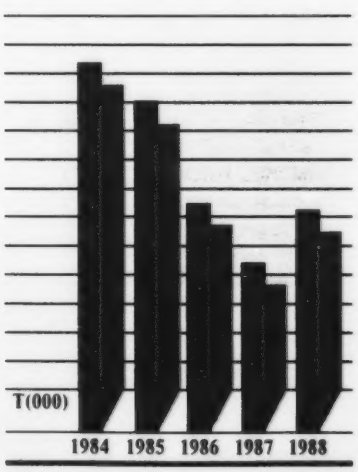
Iron ore at Sept-Îles increased by 1.8 million tonnes, or 10 percent, to 20.2 million tonnes in 1988.

Total liquid bulk increased by 17 percent to 1.4 million tonnes.

Grain traffic for 1988 totalled 1.6 million tonnes, down from 2.7 million tonnes in the previous year.

Operating revenue for 1988 was $7 million.

The Corporation paid a dividend of $126,000 with respect to the 1987 financial year.



CANADA PORTS CORPORATION

In addition to the establishment of local port corporations at ports which meet specific criteria, the 1983 *Canada Ports Corporation Act* also provided for the administration of non-corporate ports, now collectively referred to as Divisional Ports. Presently the ports of Belledune, Chicoutimi/Baie des Ha! Ha!, Churchill, Port Colborne, Prescott, Sept-Îles, and Trois-Rivières are included.

Divisional Ports play a key role in their respective regional and local economies. Local industries are dependent on facilities provided by these ports which are often the primary link to both national and international markets. Dry bulk handled include important resource products such as grain, salt, various mineral ores and coal. Liquid bulk is made up primarily of petroleum products. Forest products are important examples of general cargo handled at some of these ports.

Divisional Ports are an integral part of the Ports Canada system. While their sphere of influence may be more regional than national, the overall economic and social health of the community is clearly linked to the port.

During 1988, Canada Ports Corporation developed a computerized model that measures the economic benefits of the freight handling activities at its ports to the local, provincial, regional and national economies. While the degree of impact varies according to the nature and method of handling for different cargoes, the overall impact is significant for direct and induced employment income and revenue, as well as for taxes paid to the various levels of government.

TRAFFIC REVIEW

Divisional Ports handled a total of 30.5 million tonnes, an increase of 14 percent from the 1987 level of 26.7 million tonnes, bringing the ports back to their old level. Traffic had decreased by the identical percentage over the previous year. This tonnage represents 16.3 percent of the total traffic handled by the Ports Canada system. Of the 30.5 million tonnes, 3.9 million tonnes, or close to 13 percent, was handled at terminal facilities owned by the Corporation. The corresponding 1987 figure was 4.5 million tonnes, or 17 percent.

The upturn in total port traffic can be accounted for largely by significant increases in non-grain traffic at the ports of Sept-Îles and Chicoutimi/Baie des Ha! Ha!, in spite of substantial declines in grain handled at the ports of Churchill, Trois-Rivières and Prescott. Iron ore at Sept-Îles increased by 1.8 million tonnes, or 10 percent, from 18.4 million tonnes in 1987 to 20.2 million tonnes in 1988. Ship-to-ship transfer of coal also returned to Sept-Îles in 1988, exceeding the 1986 level of 838,000 tonnes.

Liquid bulk, mostly petroleum products, increased by close to 17 percent from 1.2 million tonnes in 1987 to 1.4 million tonnes in 1988, and other non-bulk increased marginally overall.

The big loser, however, was grain, which decreased by 41 percent from 2.7 million tonnes in 1987 to 1.6 million tonnes in 1988.

Accounting for 16.3 percent of total Ports Canada traffic, Divisional Ports handled 30.5 million tonnes in 1988, up 14 percent from 1987.

FINANCIAL OVERVIEW

Overall port performance depends on both the volume and mix of cargo handled. Although total traffic increased this year, the major decline in grain shipments through several ports has had a major negative impact on final operating results.

Revenue from Operations: Operating revenue for 1988 was $7 million, down 47.4 percent from the 1987 level of $13.3 million. This substantial decline largely reflects the loss of grain shipments due to Prairie drought conditions, especially as it affected the ports of Churchill and Trois-Rivières.

Operating Expense: In response to efforts to curtail costs, operating expense decreased by $1.7 million or 11.6 percent, to $13 million in 1988 from $14.7 million in 1987. While all categories of operating expense were favourably affected, declines were not sufficient in magnitude to offset the significant decline in revenue.

Loss from Operations: Loss from operations before depreciation amounted to $3.4 million, compared to $1.4 million income from operations in 1987. Provision for depreciation of $2.6 million resulted in an operating loss of $6 million for 1988, compared to an operating loss of $1.4 million in 1987.

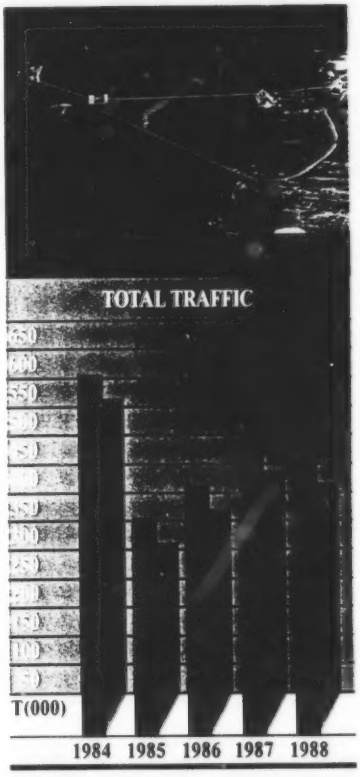
Investment Income: Investment income of $4.8 million was up 8.7 percent from the 1987 figure of $4.4 million, due to an increase in investment yields for the period.

Net Income: Prior to accounting for its share of the loss incurred by Ridley Terminals Inc., the Corporation suffered a net loss of $1.3 million, compared to a net income of $2.9 million in 1987. The 1988 loss recorded on its investment in Ridley Terminals Inc. was $4.4 million compared to $4 million in 1987. Consequently, the total net loss of the Corporation in 1988 was $5.7 million compared to a net loss of $1.1 million in 1987.

Dividend: The Corporation paid a dividend of $126,000 with respect to the 1987 financial year.

Capital Investments: The Corporation spent a total of $4.4 million on fixed assets in 1988, compared to $3.5 million in 1987. Grant funding was provided by the federal government for the completion of Pointe-Noire facilities at the Port of Sept-Îles, amounting to $1.5 million, and dust control and electrification at the Port of Churchill, amounting to $1.3 million.

Principal Operations: The principal operations of the Canada Ports Corporation are defined by the activities of the Divisional Ports.

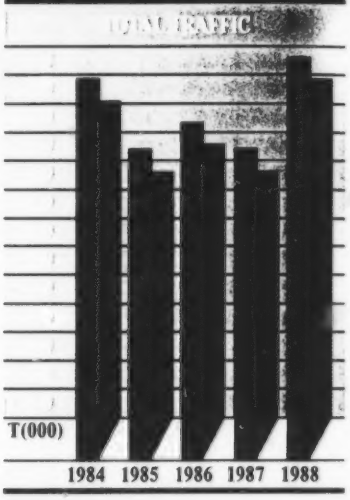


BELLEDUNE

The Port of Belledune, located in north-eastern New Brunswick, is a bulk-loading terminal used primarily by Brunswick Mining and Smelting. Other major users include Chaleur Fertilizer and Shell Canada. Total traffic decreased by 5 percent, from 425,000 tonnes to 404,000 tonnes, accounted for largely by phosphate and petroleum products. The drop occurred mainly as a result of depressed world grain prices having a negative impact on the export of bulk fer-

tilizers. Total dry bulk was relatively unchanged in 1988 to 311,000 tonnes. Liquid bulk, mainly petroleum products, was down 26.5 percent to 72,000 tonnes from 98,000 tonnes in 1987, however lead ingots doubled to 24,000 tonnes following improvements to loading facilities.

Total operating revenue was $237,000 compared to $200,000 in 1987. Operating expense was down to $129,000 from $224,000 in 1987. An operating income of $107,000 was achieved, compared to a loss in 1987 of $25,000. The port had a net income of $113,000 instead of a net loss of $34,000 in 1987.



PORTS OF CHICOUTIMI/BAIE DES HA! HA!

The Port of Chicoutimi, located at the mount of the Saguenay River, is an important economic and transportation center, playing a key role among the regions resource-based industry. The port is linked directly to private wharf facilities owned by Alcan at Baie des Ha! Ha! where commodities used in the production of aluminum are handled.

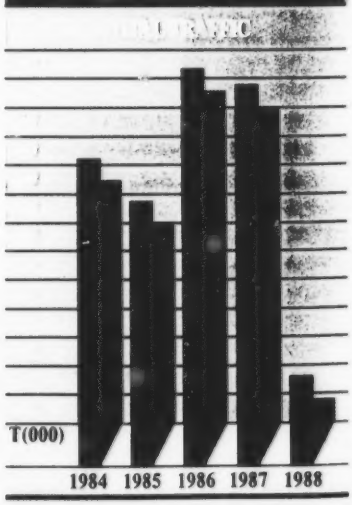
Total traffic at the Port of Chicoutimi increased by 12 percent to 487,000 tonnes compared to 434,000 tonnes in 1987, including general cargo at Pointe-à-l'Islet and Grande-Anse. Both liquid bulk and dry bulk cargo increased. Only coal decreased slightly to 30,000 from 31,000 tonnes in 1987.

Total revenue increased slightly from $1 million in 1987 to $1.2 million in 1988, thereby regaining its 1986 level. Operating loss was $31,000 compared to an operating loss of $15,000 in 1987. Net income was $509,000, slightly higher than $453,000 in 1987.

In Baie des Ha! Ha!, total traffic was up 15 percent from 3.3 million tonnes in 1987 to 3.8 million tonnes in 1988. Bulk and liquid traffic increased, but no coal was handled. Other traffic declined from 278,000 tonnes to 245,000 tonnes.

Total revenue was $144,000 compared to $112,000 in 1987, an increase of 28.6 percent. Operating income increased to $77,000 from $7,000 in 1987, while a net income of $96,000 was achieved in relation to the 1987 net income of $19,000.

The year 1988 was an excellent year overall for this port.



PORT OF CHURCHILL

The Port of Churchill, our Arctic port located on the western shore of Hudson Bay, came close in 1988 to not playing its traditional role as an outlet for western Canadian grain. The port handled only 50,000 tonnes of grain compared to 569,000 tonnes in 1987, less than 10 percent. Traffic related to resupply and petroleum distribution enjoyed a record year, however, overall port results were the worst ever.

Meanwhile, major projects, including dust control and electrification, for which federal funds in the amount of $1.3 million were provided, continued toward completion during 1988. A new winter berth for the tug "H.M. Wilson" and the installation of cleaners were also undertaken.

Total operating revenue at $1.1 million was down by 84 percent from the 1987 figure of $6.8 million. Operating loss was $4.7 million compared to a 1987

operating loss of only $342,000. The 1988 net loss was a staggering $4.1 million compared to a net income of $239,000 in 1987.

The good news is that the Port of Churchill handled its first cruise vessel during the 1988 operating season. A total of 266 passengers on board the "M.V. Discoverer" visited the port as part of a return trip between Iceland and Churchill. Plans are being made for a similar trip during 1989.

PORT COLBORNE

The year 1988 represented the second full year of operations since the grain elevator at Port Colborne, located at the south-end of the Welland Canal, was leased on a long-term basis to Goderich Elevators Limited of Ontario.

Total port traffic, consisting entirely of domestic grain movements, decreased by 42 percent to 54,000 tonnes from 93,000 tonnes in 1987.

Tenders were called during 1988 for the construction of a breakwater protection system and for the dredging of a small craft basin. This is part of the development of a 960-berth, full-service marina for transient and seasonal pleasure crafts at Gravelly Bay. The development, this phase of which will cost $1.5 million and is to be completed in 1989, is being funded by the Small Craft Harbours Directorate of Fisheries and Oceans.

Total operating revenue was down 10 percent at $98,000 compared to $109,000 in 1987. The 1988 operating loss was $340,000, or 41 percent less than an operating loss of $574,000 in 1987. A net income of $116,000 was achieved during 1988 instead of a net loss in 1987 of $159,000.

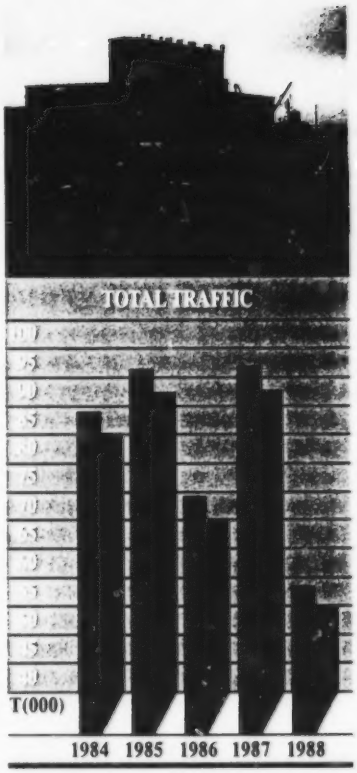
PORT OF PRESCOTT

The primary function of the Port of Prescott, located 200 km west of Montréal on the St. Lawrence River, is the handling of grain through its 154,000 tonne elevator. Effective May, 1988, the elevator was leased for a five-year period, with options to renew for up to 20 years, to Elders Grain Company Limited, a division of Elders IXL, a well-known Australian multinational company. Under the lease agreement, Elders will undertake to stimulate through various means, the most effective use of the facility including the cleaning, drying and bagging as required for domestic and export markets. Canada Ports Corporation will continue to operate the port consisting of two berths and a warehouse, for commodities other than grain, including salt.

Grain traffic, which makes up 67 percent of total port traffic, amounted to 197,000 tonnes, down 26 percent from the 1987 level of 265,000 tonnes. Overall port traffic decreased 16 percent from 349,000 tonnes in 1987 to 294,000 tonnes in 1988.

Capital expenditures in the amount of $445,000 included a new salt pad which, subject to environmental approval, will accommodate an additional 100,000 tonnes of this cargo in 1989.

Total operating revenue was $1.2 million compared to $2.3 million in 1987, a decline of close to 50 percent. The operating loss for the period was $617,000,



up by a factor of four from the 1987 operating loss of $154,000. The 1988 net income was $965,000, down 26 percent from the 1987 net income of $1.3 million.

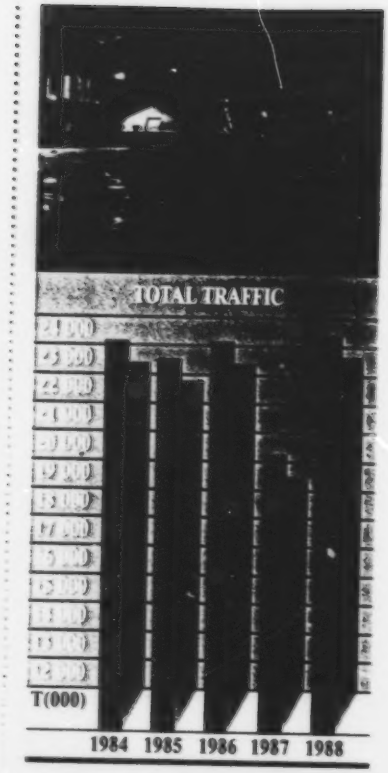
PORT OF SEPT-ÎLES

The Port of Sept-Îles is a deepwater port located on the north shore of the St. Lawrence River, 650 km east of Québec City. It serves the mining industry of Quebec and Labrador, with iron ore accounting for 90 percent of cargo handled by the port.

Total port traffic increased 21 percent from 19.3 million tonnes in 1987 to 23.4 million tonnes in 1988, the highest tonnage since 1982. This increase was due primarily to increased iron ore shipments by the Iron Ore Company of Canada and Wabush Mines from 18.4 million tonnes in 1987 to 20.2 million tonnes in 1988. The year also saw the return of the ship-to-ship transfer of coal which amounted to 873,000 tonnes, almost a 10 percent increase over even the last throughput of 838,000 tonnes in 1986. No coal was transshipped in 1987.

In June, 1988, the Ports Canada wharf at Pointe-Noire was officially named "Relance", and will be equipped with modern conveyor systems to accommodate other bulk cargoes. The port handled 693 vessels in 1988 compared to 609 in 1987.

Total operating revenue was $1.1 million, identical to 1986, but up by 25 percent from the level of $878,000 in 1987. The 1988 operating loss was $169,000 compared with an operating loss of $271,000 in 1987. Net income for the year increased by 86 percent from $91,000 in 1987 to $169,000.



PORT OF TROIS-RIVIÈRES

The Port of Trois-Rivières is strategically located on the north shore of the St. Lawrence River, midway between Montréal and Québec City. It handles a wide variety of cargoes common to the region including grain, forest products, mineral ores, and petroleum products. Grain, however, accounts for over 80 percent of total traffic.

Total port traffic was 2 million tonnes, a decline of 9 percent from 2.2 million tonnes handled in 1987. Grain was down 28 percent from 1.8 million tonnes in 1987 to 1.3 million tonnes in 1988. Other cargo tripled from 94,000 tonnes in 1987 to 285,000 tonnes in 1988, including zinc, salt and fertilizer. Liquid bulk was up by 18 percent to 248,000 tonnes, including petroleum products and caustic soda. The port handled approximately 126,000 tonnes of general cargo, 90 percent of which was paper, up 18 percent from 107,000 tonnes in 1987. Not counting grain, total port traffic grew 61 percent over the previous period. A total of 386 vessels were handled in 1988.

Total operating revenue remained stable at $1.9 million. An operating loss of $168,000 was incurred compared with an operating income in 1987 of $173,000. The port had a net income of $767,000 for this period instead of net income in 1987 of $993,000.

An economic impact analysis carried out in 1988 showed that the port created 345 direct jobs during the year and contributed $37 million to the economy.

AUDITORS' REPORT

To the Honourable Benoît Bouchard,
P.C., M.P.
Minister of Transport

We have examined the balance sheet of Canada Ports Corporation as at December 31, 1988 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Coopers & Lybrand

Chartered Accountants
Ottawa, Ontario
February 17, 1989

Balance Sheet as at December 31, 1988 (in thousands of dollars)

Assets	1988	1987
Current		
Cash	$ 348	$ 351
Investments (Note 3)	39,925	26,715
Accounts receivable	1,597	2,303
Due from Canada	2,482	1,940
Materials and supplies	239	338
	44,591	31,647
Investments (Note 3)	18,361	18,293
Investment in Ridley Terminals Inc. (Note 4)	3,083	7,465
Fixed assets (Note 6)	36,894	38,009
	$102,929	$95,414
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	$ 3,908	$ 3,268
Grants in lieu of municipal taxes	898	542
Due to Canada (Note 8)	12,668	—
	17,474	3,810
Accrued employee benefits	1,171	1,392
Loans from Canada (Note 9)	1,406	1,487
	2,577	2,879
Equity of Canada		
Contributed capital	73,638	73,638
Retained earnings	9,240	15,087
	82,878	88,725
	$102,929	$95,414

On behalf of the Board:

The Honourable A.R. Huntington
Chairman

Jean Michel Tessier
President and
Chief Executive Officer

Statement of Income and Retained Earnings	(in thousands of dollars)	
for the year ended December 31, 1988	1988	1987
Revenue from operations	$ 7,026	$13,331
Operating and administrative expenses — net	9,288	10,677
Depreciation	2,592	2,822
Grants in lieu of municipal taxes	1,117	1,202
	12,997	14,701
Net loss from operations	(5,971)	(1,370)
Investment income	4,750	4,368
Interest expense	(118)	(123)
Net income (loss) before the undernoted item	(1,339)	2,875
Share in loss of Ridley Terminals Inc. (Note 4)	(4,382)	(3,994)
Net loss	(5,721)	(1,119)
Retained earnings at beginning of the year, as restated (Note 4)	15,087	17,211
Dividend to Canada (Note 8)	(126)	(1,005)
Retained earnings at end of the year	$ 9,240	$15,087

Statement of Changes in Financial Position	(in thousands of dollars)	
for the year ended December 31, 1988	1988	1987
Operating Activities		
Net loss	$ (5,721)	$ (1,119)
Items not affecting cash		
Depreciation	2,592	2,822
Share in loss of Ridley Terminals Inc.	4,382	3,994
Other	(218)	95
Decrease (increase) in operating components of working capital	13,927	(4,358)
Cash provided by operating activities	14,962	1,434
Financing Activities		
Capital grants	2,775	2,144
Loans from Canada	(81)	(75)
Dividend to Canada	(126)	(1,005)
Cash provided by financing activities	2,568	1,064
Investing Activities		
Additions to fixed assets	4,353	3,517
Proceeds on disposal of fixed assets	(30)	4
Cash required by investing activities	4,323	3,521
Increase (decrease) in cash and short-term investments	13,207	(1,023)
Cash and short-term investments at beginning of the year	27,066	28,089
Cash and short-term investments at end of the year	$40,273	$27,066

Notes to Financial Statements
December 31, 1988

1 Canada Ports Corporation Act

Canada Ports Corporation is established under the *Canada Ports Corporation Act*. The Act provides for the establishment of local port corporations to manage and operate selected ports. The Corporation is named in Part II of Schedule III of the *Financial Administration Act* and is exempt from income tax.

2 Significant accounting policies

(a) Financial statements

The financial statements of the Corporation include the accounts of all the ports and other facilities under its administration. The activities of the local port corporations are excluded from the financial statements from the date of their establishment.

(b) Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

(c) Investment in Ridley Terminals Inc.

The investment in Ridley Terminals Inc. is accounted for on the equity basis.

(d) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(e) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(f) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(g) Employee benefits
The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees under its collective agreements, or in accordance with its policy.

3 Investments

Investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. As at December 31, 1988, and 1987, the market value of the current investments approximates their amortized cost. At December 31, 1988, the market value of the long-term investments is $20,232,000 ($20,248,000 in 1987).

4 Investment in Ridley Terminals Inc.

Ridley Terminals Inc. ("RTI") was incorporated on December 18, 1981, under the *Canada Business Corporations Act* for the purpose of constructing and operating coal terminal facilities on Ridley Island in Prince Rupert, British Columbia. RTI is exempt from income taxes.

RTI's throughput revenue is currently dependent upon the production of two coal producers. The coal producer who currently ships the larger tonnage through RTI's facilities has entered into a price arbitration process with its customers. The results of this arbitration process could have a significant economic impact on the coal producer, which in turn could affect the relations of RTI with this customer. The continued operations of RTI and the current carrying value of its terminal facility are dependent on a viable level of coal throughput from its customers and continued financial support from the Government of Canada.

At December 31, 1988, the Corporation had acquired, at a cost of $23,021,400, 90% of the issued common shares ($900) and 100% of the Class A preference shares ($23,020,500) of RTI. As of that date, Fednav Limited had acquired, at a cost of $23,020,600, 10% of the issued common shares ($100) and 100% of the Class B preference shares ($23,020,500) of RTI.

The Class A preference shares carry a fixed cumulative dividend at a rate of 18% per annum on their stated value. The Class B preference shares carry a fixed cumulative dividend at a rate sufficient to net 20% after tax per annum on their stated value. The annual dividend of 20% on the Class B preference shares is a net sum after deducting an amount equal to the prevailing aggregate federal and provincial corporate income and profits taxes applicable to the dividend.

Holders of the Class A and B preference shares are entitled to interest at the respective dividend rates on dividends accrued but not paid. Unpaid interest compounds annually at the same respective rates. Interest has accrued since April 30, 1982. The preference shares are redeemable at any time at their stated value plus accrued dividends and unpaid interest thereon. Preference dividends and related interest in arrears at December 31, 1988, calculated at tax rates prevailing as at that date with respect to the Class B shares amount to:

(in thousands of dollars)

	1988	1987
Class A preference shares held by Canada Ports Corporation	$ 37,452	$27,835
Class B preference shares held by Fednav Limited	81,853	65,847
	$119,305	$93,682

The Corporation's investment in RTI is accounted for on the equity basis. Application of this method for years in which RTI has a deficit requires that the Corporation recognize a share of the results of operations of RTI equal to its participation in the total equity of RTI which, at December 31, 1988, was 50%. For years in which RTI has retained earnings, the Corporation's share of the results of operations will be proportionate to its shareholding in common shares, after recognizing the dividend requirements of the two classes of preference shares.

The investment in Ridley Terminals Inc. is composed of:

(in thousands of dollars)

	1988	1987
Balance at beginning of the year	$7,465	$11,459
Share in loss	(4,382)	(3,994)
Balance at end of the year	$3,083	$ 7,465

In 1987, RTI negotiated a reduction of $644,000 in the property tax assessment for 1985. The Corporation's retained earnings as at January 1, 1987, have been adjusted by $322,000 representing its 50% share of the amount received.

A summary of the balance sheet of RTI as at December 31, as reported in its audited financial statements shows:

(in thousands of dollars)

	1988	1987
Assets		
Current	$ 4,772	$ 1,786
Fixed	213,311	219,245
Other	67	75
	$218,150	$221,106
Liabilities		
Current	$ 3,481	$ 1,387
Long-term debt	207,323	203,608
	210,804	204,995
Equity	7,346	16,111
	$218,150	$221,106

RTI has two long-term financing agreements with a major Canadian bank as follows:

(a) a construction credit loan agreement which is guaranteed unconditionally by Canada and is further secured by a $250,000,000 subordinate fixed and floating charge collateral demand debenture. On July 1, 1985, all borrowings converted to a fifteen year term loan with specified semi-annual repayments commencing July 31, 1991 through January 31, 2000. Interest on any bank loan is at the bank's prime rate, payable monthly. The Bankers' Acceptance fee is currently 1/2% per annum.

(b) a revolving credit loan agreement which provides an $80,000,000 credit facility for advances on a revolving basis until June 30, 1989 at which time all borrowings will convert to a term loan repayable in specified semi-annual instalments commencing July 31, 1989 through January 31, 1992. Interest on the bank loans is at the bank's prime rate plus 1/4% per annum, payable monthly. The Bankers' Acceptance fee is currently 3/4% per annum.

This agreement is secured by a $350,000,000 first fixed and floating charge collateral demand debenture with the terminal facility as security and an assignment of the lease from the Prince Rupert Port Corporation.

As at December 31, 1988, drawings under these agreements were as follows:

	(in thousands of dollars)	
	1988	1987
(a) Construction credit loan agreement — Bankers' acceptances, net of unamortized interest charges	**$198,818**	$198,625
(b) Revolving credit loan agreement —		
Bank loans	**1,800**	1,000
Bankers' acceptances, net of unamortized interest charges	**7,930**	3,983
	9,730	4,983
	208,548	203,608
Less: Current portion of long-term debt	**1,225**	—
	$207,323	$203,608

Based on the amounts borrowed under the credit facilities as at December 31, 1988, annual principal repayments over the next five years amount to $1,225,000 in 1989, $3,185,000 in 1990, $8,662,500 in 1991, $11,690,000 in 1992 and $14,962,500 in 1993.

The results of operations of RTI for the year ended December 31, 1988, in comparison with the year ended December 31, 1987, are as follows:

	(in thousands of dollars)	
	1988	1987
Revenue from operations	**$30,676**	$27,625
Operating and administrative expenses	**12,675**	11,736
Depreciation	**6,746**	6,530
Interest expense	**20,020**	17,348
	39,441	35,614
Net loss	**$ (8,765)**	$ (7,989)

5 Debentures of Saint John Harbour Bridge Authority

The Saint John Harbour Bridge Authority ("the Authority") is indebted in the amount of $13,921,000 (1987 — $14,041,000) to the Corporation which in turn is indebted to Canada in the same amount, in accordance with the provisions of Vote L106B, Appropriation Act No. 7, 1967, 1967-68, c.8. The interest and repayment terms of the parliamentary advances to the Corporation are identical to those of the debentures of the Authority. Under the terms of the agreement between Canada and the Authority, Canada, in effect, has guaranteed the repayment of both principal and interest on the debentures. Accordingly, the debentures received have been offset against the advances and loans payable to Canada such that they are not reflected as an asset and a liability on the balance sheet. Interest income and expense of $955,000 (1987 — $964,000) have been similarly offset and do not appear in the statement of income and retained earnings.

On July 9, 1981, the Treasury Board agreed to the transfer of the responsibility for the administration of the indebtedness of the Authority as well as the equivalent loan payable to Canada from the accounts of the Corporation to those of Transport Canada. As at December 31, 1988, Transport Canada has not completed the transfer.

6 Fixed assets

(a) Summary

(in thousands of dollars)

	Depreciation rates %	1988 Cost	1988 Accumulated depreciation	1988 Net	1987 Net
Land	—	$ 4,426	$ —	$ 4,426	$ 4,419
Dredging	2.5-6.7	9,489	5,688	3,801	4,112
Berthing structures	2.5-10	34,542	16,978	17,564	18,003
Buildings	2.5-10	15,778	11,937	3,841	4,054
Utilities	3.3-10	2,811	1,345	1,466	1,531
Roads and surfaces	2.5-10	2,273	1,597	676	705
Machinery and equipment	5-100	18,864	15,059	3,805	4,209
Office furniture and equipment	20	3,080	2,471	609	320
Works under construction	—	706	—	706	656
		$91,969	$55,075	$36,894	$38,009

(b) Capital grants

During the year, the Corporation received capital grants totalling $2,775,000 (1987 — $2,144,000) towards the construction of fixed assets.

(c) Capital expenditure commitments

Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $2,077,000, of which most will be expended in the year ending December 31, 1989.

7 Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are deferred revenues for $467,000 (1987 — $144,000) and current portion of long-term liabilities for $81,000 (1987 — $75,000).

8 Due to Canada

During the year, the Treasury Board authorized that the dividend payments to be made in 1988 and 1989 by Canada Ports Corporation and the local port corporations, be used to establish an interport loan fund. This fund will be administered by the Corporation and will assist in providing financing of capital projects of the Ports Canada corporations.

As at December 31, 1988, the Corporation held $12,668,000 representing the dividend payments made in 1988 and interest earned thereon, pending approval by Canada of the establishment of the interport loan fund in 1989. The funds have been invested in direct and guaranteed securities of Canada and are included in the current investments on the balance sheet of the Corporation.

9 Loans from Canada

(in thousands of dollars)

	1988	1987
Loans bearing interest at 6.44% and 9.09%, repayable in blended annual instalments of principal and interest of $193,000 and maturing on December 31, 2000	$1,487	$1,562
Less: current portion	(81)	(75)
	$1,406	$1,487

Principal repayment requirements over the next five years amount to $81,000 in 1989, $87,000 in 1990, $93,000 in 1991, $100,000 in 1992 and $108,000 in 1993.

10 Contingencies

Claims aggregating approximately $1,897,000 in respect of lawsuits, guarantees, employee agreements, damages allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation but are not reflected in the accounts. In the opinion of the Corporation, the final outcome of such claims should not result in any material financial liability.

The Corporation assumes substantially all risks against fire and general perils, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

HALIFAX PORT CORPORATION

PERFORMANCE HIGHLIGHTS

Total cargo volume over HPC facilities registered another consecutive record year with an increase of 11% to 4.6 million tonnes.

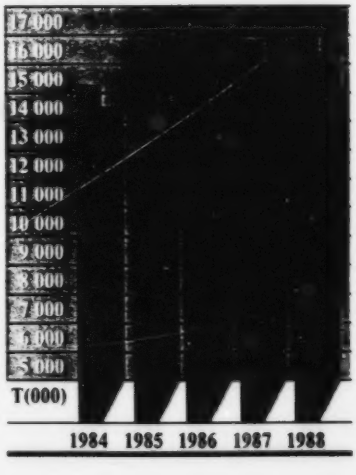
Container cargo over HPC facilities registered another consecutive record year with an increase of 27% to 3.5 million tonnes.

Market share of the Canadian east coast container market increased from 33.6% in 1987 to 37.6% in 1988.

Completion of 50 metre berth extension at Pier C at a cost of $4.4 million.

Approval to proceed with the redevelopment of Pier B at an estimated cost of $4.7 million.

TOTAL TRAFFIC



JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The Halifax Port Corporation is very pleased to report on its most successful year in the history of the port. A strategic location for Canadian imports and exports, the Port of Halifax provides competitive services and prices to the more than thirty shipping lines which call at the port on scheduled and non-regular services.

As the second largest container port in Canada, the Port of Halifax is a gateway for movement of Canadian products. The port's investment in terminals and wharf infrastructure will provide assurance that it will continue to have the capability of handling the world's largest container vessels, in addition to dry and liquid tankers, and general cargo vessels.

A recent Special Examination was undertaken, in accordance with the *Financial Administration Act*; this "management audit" reported that there were no significant deficiencies in the management of the Halifax Port Corporation. The Corporation is committed to its objectives in the provision of an efficient port system, one which ensures fast turnaround of vessels at competitive costs. In 1988, the Corporation achieved, and in most cases, exceeded its objectives with respect to business activity.

One major accomplishment in 1988 has been the increase in the port's market share of the east coast Canadian container market. The port recorded a 37.6 percent share in 1988, representing an increase of four percentage points.

Capital Expenditures
Capital expenditures in 1988 amounted to $4.9 million, of which $4.2 million was expended in completing the Pier "C" Berth Extension, to enhance the operation of the port's first container terminal.

Contracts were also awarded in 1988 for the removal of transit sheds in Pier "B"; other components of this project will include dredging the berth, regrading and resurfacing the area, placement of gantry crane rails, all due for completion by August, 1989. This facility will become the port's third container terminal, and is required to provide added capacity to handle the ever increasing volumes of cargo through the port. Total project cost is estimated at $4.7 million. Over the past ten years, the port has invested $57.4 million in capital projects for new and upgraded facilities.

Cargo Highlights
A record level of cargo tonnage moved through the port in 1988, totalling 16.2 million tonnes, up from the previous record of 15.8 million tonnes set in 1987. Exports of gypsum increased by 5.7 percent to 3.2 million tonnes in 1988, while crude and refined oils amounted to 8.3 million tonnes, a slight decline from the 8.5 million tonnes recorded in 1987.

For the third consecutive year, containerized cargo reached a new record in 1988. The port recorded 3.5 million tonnes of containerized cargo, for an increase of 26.7 percent over the previous record of 2.8 million tonnes set in 1987. Over the last three years, containerized cargo has increased by over 81 percent.

Financial Results
Revenue from operations amounted to $14.8 million, up from the $12.9 million in 1987, particularly due to the record cargo levels. Total expenses were $11.9 million, as compared to $11.2 million in 1987. Income from operations rose to $2.9 million, an increase of 69.5 percent from 1987. Net income was $3.4 million, an increase of $1.7 million from the preceding year.

The Corporation's working capital remained relatively unchanged during the year, although short-term investments increased by $0.17 million. This increase was the result of improved cash flow from operations.

Donald A. Parker David F. Bellefontaine

Personal Contributions
The team approach at the Port of Halifax has once again paid dividends; the dedication of all those individuals and marine related organizations, waterfront labor, and Corporation staff, are responsible for the port's success record in 1988.

We anticipate a solid future for the Port of Halifax, as a Gateway to Canada, and we challenge all those involved in the port to break new cargo and productivity records in the years ahead.

Donald A. Parker
Chairman of the Board

David F. Bellefontaine
President and Chief Executive Officer

AUDITORS' REPORT

To the Honourable Benoît Bouchard,
P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Halifax Port Corporation as at December 31, 1988 and the statements of income and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and Regulations, the *Canada Ports Corporation Act*, and the by-laws of the Corporation.

Chartered Accountants
Halifax, Nova Scotia
February 2, 1989

Balance Sheet as at December 31, 1988

Assets	**1988**	1987
Current		
Cash	$ 230,462	$ 227,232
Investments (Note 3)	5,794,295	5,620,579
Accounts receivable	2,736,263	2,741,320
Materials and supplies	126,167	102,783
	8,887,187	8,691,914
Investments (Note 3)	33,405	33,300
Fixed (Note 4)	56,115,970	53,243,487
	$65,036,562	$61,968,701
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 1,159,545	$ 911,350
Grants in lieu of municipal taxes	71,664	201,002
Deferred revenues	928,571	892,851
Current portion of long term debt	334,057	303,688
	2,493, 837	2,308,891
Accrued employee benefits	679,499	662,746
Loans from Canada (Note 5)	3,486,176	3,820,233
	6,659,512	6,791,870
Equity		
Contributed capital	53,796,865	53,796,865
Surplus	4,580,185	1,379,966
	58,377,050	55,176,831
	$65,036,562	$61,968,701

On behalf of the Board:

Donald A. Parker
Chairman

David F. Bellefontaine
President and
Chief Executive Officer

Statement of Income and Surplus

year ended December 31, 1988	1988	1987
Revenue from operations	$14,836,049	$12,866,025
Operating and administrative expenses	9,201,859	8,211,102
Depreciation	1,934,257	2,033,490
Grants in lieu of municipal taxes	790,963	907,200
	11,927,079	11,151,792
Income from operations	2,908,970	1,714,233
Investment income	594,105	418,840
Interest expense	(412,392)	(440,000)
Gain on disposal of fixed assets	2,456	3,778
	184,169	(17,382)
Net income before extraordinary item	3,093,139	1,696,851
Extraordinary item		
Gain on sale of land	266,135	—
Net income	3,359,274	1,696,851
Surplus (deficit), beginning of year	1,379,966	(46,976,415)
Deficit reduction		46,976,415
	4,739,240	1,696,851
Dividend to Canada	159,055	316,885
Surplus, end of year	$ 4,580,185	$ 1,379,966

Statement of Changes in Financial Position

year ended December 31, 1988	1988	1987
Operating activities		
Net income before extraordinary item	$3,093,139	$1,696,851
Depreciation	1,934,257	2,033,490
Other	55,628	(24,388)
Decrease in operating components of working capital	136,250	116,545
Cash provided by operating activities	5,219,274	3,822,498
Financing activities		
Loans from Canada	(303,687)	(276,079)
Dividend to Canada	(159,055)	(316,885)
Cash applied to financing activities	(462,742)	(592,964)
Investing activities		
Proceeds from sale of land	266,135	—
Additions to fixed assets	(4,852,977)	(1,443,777)
Other	7,256	10,461
Cash applied to investing activities	(4,579,586)	(1,433,316)
Increase in cash and short-term investments	176,946	1,796,218
Cash and short-term investments, beginning of year	5,847,811	4,051,593
Cash and short-term investments, end of year	$6,024,757	$5,847,811

Notes to Financial Statements
December 31, 1988

1 In accordance with the *Canada Ports Corporation Act*, sections 6.1 and 6.2, a petition for the establishment of a local port corporation at the Port of Halifax was approved and the Halifax Port Corporation was established effective June 1, 1984.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation — Port of Halifax to the Halifax Port Corporation.

2 **Significant accounting policies**

a) Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

b) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

d) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

e) Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

3 Investments

	1988		1987	
	Amortized Cost	Face Value	Amortized Cost	Face Value
Short term	$5,794,295	$6,039,800	$5,620,579	$5,706,200

	1988		1987	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Long term	$ 33,405	$ 34,270	$ 33,300	$ 32,342

4 Fixed assets

		1988			1987
	Depreciation Rates	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land		$23,324,988	$ —	$23,324,988	$23,324,988
Dredging	2.5-6.7	2,627,637	2,255,160	372,477	369,113
Berthing structures	2.5-10	32,310,994	17,910,525	14,400,469	14,899,890
Buildings	2.5-10	16,796,717	11,023,856	5,772,861	6,113,999
Utilities	3.3-10	4,510,147	2,008,091	2,502,056	2,609,784
Roads and surfaces	2.5-10	7,462,891	4,117,353	3,345,538	3,737,024
Machinery and equipment	5-100	9,408,757	7,792,272	1,616,485	1,719,844
Office furniture and equipment	20	920,031	738,952	181,079	257,710
Projects under construction		4,600,017	—	4,600,017	211,135
		$101,962,179	$45,846,209	$56,115,970	$53,243,487

5 Loans from Canada

	1988	1987
10% loan maturing on December 31, 1996 repayable in blended annual principal and interest payments of $716,080	**$3,820,233**	$4,123,920
Less current portion repayable within one year	**334,057**	303,687
	$3,486,176	$3,820,233

The loans from Canada are unsecured.

BOARD OF DIRECTORS

Donald A. Parker
Chairman
President of various local companies
Dartmouth, N.S.

Paul M. Murphy, Q.C.
Vice-Chairman
Partner — Patterson Kitz
Halifax, N.S.

Florence R. Irwin
Partner — Canadian Annuity Quotations and Insurance Services Ltd.
Bedford, N.S.

Michael J. Proude
President — Local 269
International Longshoremen's Association
Dartmouth, N.S.

Lois A. Glibbery
Property Marketing Specialist
Royal Lepage Real Estate Services Ltd.
Halifax, N.S.

Harald A. Norve
President
H. A. Norve & Associates Ltd.
Halifax, N.S.

Captain Ernest A. Coates
Retired-Marine Superintendent
Esso Petroleum Canada
Dartmouth, N.S.

OFFICERS OF THE CORPORATION

Donald A. Parker
Chairman

Paul M. Murphy, Q.C.
Vice-Chairman

David F. Bellefontaine
Port Manager
President and Chief Executive Officer

Lorraine E. Brenton
Corporate Secretary

Richard T. Pentland
Vice-President, Engineering and Works

Dennis W. Creamer
Vice-President, Finance and Administration

Robert A. Kaye
Vice-President, Marketing

Captain Claude L. Ball
Vice-President, Operations/Harbour Master

Peter J. MacKeigan
Chief Legal Officer

Growth of highly-diversified traffic more than compensates for a sharp decrease in grain exports.

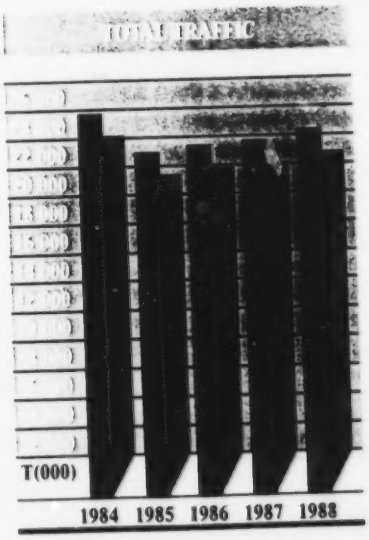
A record amount of containerized cargo handled for the sixth consecutive year.

An unprecedented amount of general cargo handled.

A substantial increase in petroleum products traffic.

Positive financial results for the ninth consecutive year.

More than $24 million in capital expenditures to expand and improve facilities.



JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE GENERAL MANAGER AND CHIEF EXECUTIVE OFFICER

The results of last year's port activity illustrate well the advantage Montréal maintains as a multifunctional port.

As a matter of fact, because of its highly-diversified traffic, the Port of Montréal did well in 1988 despite a sharp decrease in grain exports caused by one of the worst droughts on the Prairies in 50 years.

Total traffic rose to 22.2 million tonnes, compared with 21.9 million tonnes in 1987. The gain — 1.7 percent or approximately 370,000 tonnes — is attributable to an increase in petroleum products and containerized cargo traffic.

It is apparent from last year's results that the decrease in grain traffic made the difference between what was a "good year" for the Port of Montréal and what could have been a "very good year".

General Cargo
Despite fierce competition, the Port of Montréal handled a record amount of containerized cargo for the sixth consecutive year in 1988. Traffic in this category rose to 5.7 million tonnes, an increase of 3.7 percent or approximately 200,000 tonnes compared with 1987.

In the last 10 years, our containerized cargo traffic has grown at an average annual rate of 9.9 percent, which is three times higher than that of the industrialized economies of the Organization for Economic Co-operation and Development (O.E.C.D.).

Our containerized traffic increased at a more normal level in 1988 — more in line with that of the economy — but it will continue to grow steadily over the long-term perspective, which is very encouraging for Canada's Number One Container Port.

In 1988, 560,441 containers (TEUs) were handled on our docks. In fact, it took only 10 years for the cumulative number of containers moving through the port to go from one million to five million, a milestone set last May.

Because of the increase in containerized traffic, the port once again handled an unprecedented amount of general cargo. Traffic in this sector, which included 1.2 million tonnes of breakbulk cargo, rose to 6.9 million tonnes in 1988, an increase of 3.4 percent or 200,000 tonnes.

The Port of Montréal handled more general cargo traffic than any other port on North America's eastern seaboard, with the exception of New York.

Bulk Cargo
Grain was the only cargo category in which traffic was down in 1988. A poor harvest, caused by last year's drought, was responsible for the decline. Grain traffic totalled three million tonnes, a decrease of 27 percent or 1.1 million tonnes compared with 1987.

Petroleum products traffic made the strongest gain in 1988. It rose to 7.3 million tonnes, compared with 6.1 million tonnes the year before, for an increase of 19.4 percent.

This remarkable gain is attributable mainly to large shipments of crude oil to the United States, where a strong demand coincided with an excess in production in Canada.

Finally, traffic in the other dry and liquid bulk category amounted to five million tonnes in 1988, the same total as the year before.

Highlights of the Fiscal Year
Last year was the ninth consecutive year that the port posted positive financial results. Revenue from operations totalled $57.2 million and net income from operations was $4.6 million. Net income amounted to $14 million, including net investment income of $7.5 million and an outstanding item of $1.9 million.

Capital expenditures amounting to $24.4 million emphasize the priority we place on expanding and improving our facilities.

We are proud to state that the Corporation is financially healthy and that it is continuing to achieve its principal objective: to stimulate port activity by providing quality facilities and efficient services at competitive costs.

We had this objective in mind when we unveiled last year our development strategy designed to satisfy the growing space requirements of our current and future customers through to the year 2010.

Outlook
The year 1989 will be difficult in the grain sector. We cannot hope for an improvement before the next harvest.

Nevertheless, we believe that the Port of Montréal will do well for itself, just as it did in 1988, because of its highly-diversified traffic.

The outlook for the long term is excellent as indicated by, among other things, studies on which we based our Horizon 2010 port development strategy.

In conclusion, we would like to take this opportunity to extend our heartfelt thanks to our employees and to all members of the port community for their tireless efforts to ensure the success of the Port of Montréal, a major world port located right on the doorstep of North America's industrial heartland.

Ronald Corey
Chairman of the Board

Dominic J. Taddeo
General Manager and
Chief Executive Officer

AUDITORS' REPORT

To the Honourable Benoît Bouchard,
P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Montréal Port Corporation as at December 31, 1988 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Furthermore, in our opinion, the transactions of the Corporation that have come under our notice in the course of our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and with the charter and by-laws of the Corporation.

Samson Bélair

Chartered Accountants

Montréal, Quebec
February 10, 1989

Balance Sheet as at December 31, 1988 (in thousands of dollars)

Assets	**1988**	1987
Current		
Cash	**$ 692**	$ 632
Investments (Note 3)	**28,871**	36,025
Accounts receivable	**9,176**	10,596
Materials and supplies	**872**	859
	39,611	48,112
Investments (Note 3)	**39,572**	39,395
Fixed assets (Note 4)	**153,618**	139,489
Other assets	**499**	433
	$233,300	$227,429
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 5)	**$ 10,254**	$ 11,260
Grants in lieu of municipal taxes	**2,386**	5,000
	12,640	16,260
Accrued employee benefits	**5,329**	5,225
Loans from Canada (Note 6)	**6,561**	6,968
	11,890	12,193
Equity of Canada		
Contributed capital	**183,569**	183,569
Retained earnings	**25,201**	15,407
	208,770	198,976
	$233,300	$227,429

On behalf of the Board:

Ronald Corey
Chairman

Dominic J. Taddeo
General Manager and
Chief Executive Officer

Income

year ended December 31, 1988	(in thousands of dollars) 1988	1987
Revenue from operations	$57,268	$59,770
Operating and administrative expenses	39,385	38,530
Depreciation	9,838	8,926
Grants in lieu of municipal taxes	3,403	3,954
	52,626	51,410
Net income from operations	4,642	8,360
Investment income	7,968	7,529
Interest expense	(459)	(482)
	7,509	7,047
Net income before unusual item	12,151	15,407
Adjustment of grants in lieu of municipal taxes	1,915	—
Net Income	$14,066	$15,407

Retained Earnings

year ended December 31, 1988	(in thousands of dollars) 1988	1987
Balance at beginning	$15,407	$(7,712)
Elimination of deficit by a reduction in contributed capital		7,712
Net income	14,066	15,407
Dividend	(4,272)	—
Balance at end	$25,201	$15,407

Changes in Financial Position	(in thousands of dollars)	
year ended December 31, 1988	**1988**	1987
Inflow (Outflow) of cash related to the following activities:		
Operating		
Net income	**$14,066**	$15,407
Items not affecting cash		
Depreciation	**9,838**	8,926
Other	**142**	360
	24,046	24,693
Changes in non-cash operating working capital items	**(1,950)**	6,677
	22,096	31,370
Financing		
Repayment of current portion of loans from Canada	**(407)**	(383)
Increase (decrease) in accrued employee benefits	**104**	(58)
Dividends paid	**(4,272)**	(4,136)
	(4,575)	(4,577)
Investing		
Acquisition of long-term investments	**(177)**	(177)
Acquisition of fixed assets	**(24,423)**	(17,832)
Proceeds on disposal of fixed assets	**51**	—
Receipt of other assets	**30**	26
Acquisition of other assets	**(96)**	—
	(24,615)	(17,983)
Increase (decrease) in cash	**(7,094)**	8,810
Cash at beginning	**36,657**	27,847
Cash at end	**$29,563**	$36,657

Cash comprises cash and temporary investments.

Notes to Financial Statements
year ended December 31, 1988

1 Status
The Montréal Port Corporation (the Corporation) was incorporated by letters patent in accordance with paragraph 6.2(1) of the *Canada Ports Corporation Act* on July 1, 1983.

Under Section 6.5 of the same Act, on the establishment of a local port corporation, all rights, obligations and liabilities of the Canada Ports Corporation in relation to that harbour shall become rights, obligations and liabilities of the local port corporation and the administration of all such property and works within the limits of that harbour as are administered by the Board, shall be deemed to have been transferred to the local port corporation, in this case the Montréal Port Corporation.

2 Significant Accounting Policies
Inventories
Materials and supplies are valued at the lower of cost and replacement cost. Cost is determined substantially on average cost.

Fixed Assets and Depreciation
Fixed assets are recorded at original cost with related accumulated depreciation transferred from Canada Ports Corporation; subsequent acquisitions are recorded at cost.

Depreciation on fixed assets is calculated according to the straight-line method for the full year, commencing in the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

Pension Costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

Grants in Lieu of Municipal Taxes
Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee Benefits
The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements, or in accordance with Corporation policy.

3 Investments
Funds are invested in Government of Canada direct securities and guaranteed by the Government of Canada which are shown at amortized cost, with premiums or discounts amortized over the periods to maturity. As at December 31, 1988, the market value of the short-term investments is equivalent to their amortized cost, and market value of long-term investments is $42,450,600 ($42,636,000 in 1987).

4 Fixed Assets

(in thousands of dollars)

	Depreciation Rates	1988 Cost	1988 Accumulated Depreciation	1988 Net Value	1987 Net Value
Land		$23,230	$ —	$ 23,230	$ 19,113
Dredging	2.5%	15,876	12,366	3,510	3,738
Berthing structures	2.5%	59,317	38,719	20,598	21,594
Buildings	2.5%-10%	68,508	30,436	38,072	38,583
Utilities	3.3%-10%	17,180	7,128	10,052	8,565
Roads and surfaces	2.5%-10%	51,901	14,349	37,552	26,900
Machinery and equipment	5%-20%	52,846	34,465	18,381	20,355
Office furniture and equipment	20%	1,715	1,247	468	444
		290,573	138,710	151,863	139,292
Projects under construction		1,755	—	1,755	197
		$292,328	$138,710	$153,618	$139,489

5 Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are amounts for deferred revenues of $1,002,793 ($979,612 in 1987) and for the current portion of long-term liabilities of $407,056 ($383,111 in 1987).

6 Loans from Canada

(in thousands of dollars)

	1988	1987
Loans bearing interest at 6.25% with blended annual principal and interest repayment requirements of $842,561 and maturing in the year 2000	$6,968	$7,351
Less: Current portion	407	383
	$6,561	$6,968

Principal repayment requirements over the next five years amount to:

1989	1990	1991	1992	1993
$407,056	$432,497	$459,528	$488,249	$518,765

7 Contingencies

Claims aggregating approximately $7,810,690 in respect of lawsuits, guarantees and damages allegedly suffered on the Corporation property and sundry legal matters in dispute have been made against the Corporation but are not reflected in the accounts. In the opinion of the Corporation, its position is defensible and the final outcome of such claims should not result in any material loss.

8 Commitments

a) Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $2,854,000.

b) In accordance with a Government of Canada policy concerning payment of dividend, the Corporation would be required to pay a dividend, in respect of the 1988 fiscal year, based on a method of calculation using net income. This dividend payable before March 31, 1989, would amount to $3,338,095 and would be applied against retained earnings.

9 Related Party Transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Government of Canada, its agencies and other Crown corporations.

The Corporation derives revenues from related parties principally from grain warehousing and switching charges. The expenses paid to related parties are principally administration fees.

BOARD OF DIRECTORS

Ronald Corey *
Chairman
President, Club de Hockey Canadien, Inc.
President, Montréal Forum Inc.
Montréal, Que.

Bernard J. Finestone *
Vice-Chairman
President, Abbey-Finestone Inc.
Westmount, Que.

Rosaire Archambault
President
Archambault Musique Inc.
Montréal, Que.

Roger Bishop
Member, Local 375
International Longshoremen's Association
Brossard, Que.

Suzanne Brochu
Communications Officer
Caisse de dépôt et placement du Québec
Montréal, Que.

Raphael Esposito
Esposito, Cocciardi, St-Onge & Beaulieu
Montréal, Que.

André Gingras *
President
André Gingras et associés Inc.
Westmount, Que.

* Members of the Executive Committee

OFFICERS OF THE CORPORATION

Ronald Corey
Chairman

Dominic J. Taddeo
General Manager and Chief Executive Officer

Yvan Simard
Deputy General Manager

André Bédard
Director of Human Resources

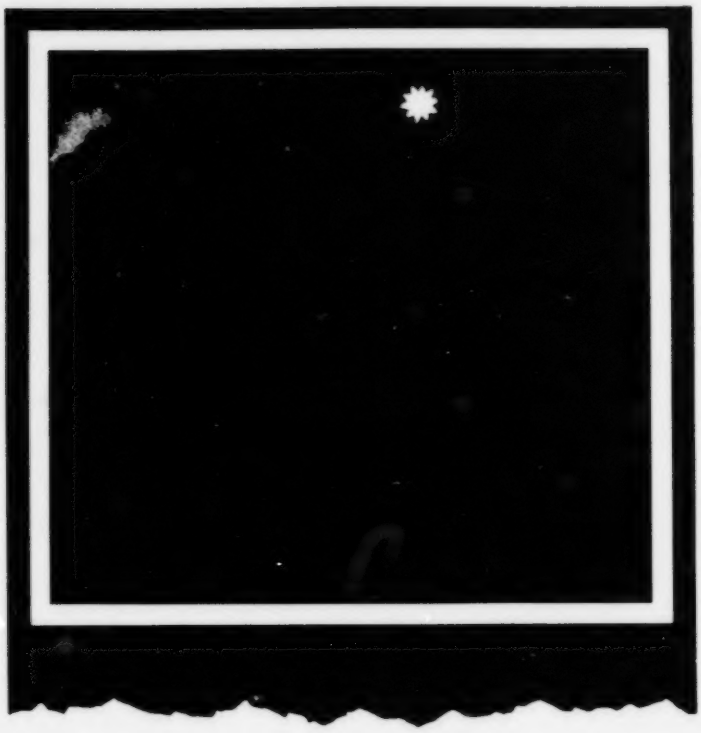
Jacques Brault
Director of Police and Security

Jean-Pierre Desjardins
Director of Planning and Development

Roger Dubé
Director of Finance and Administration

Captain Des Hassib
Director of Operations

Jean Mongeau
Corporate Secretary



PRINCE RUPERT PORT

CORPORATION

PERFORMANCE HIGHLIGHTS

Major progress on $37.9 million Fairview expansion.

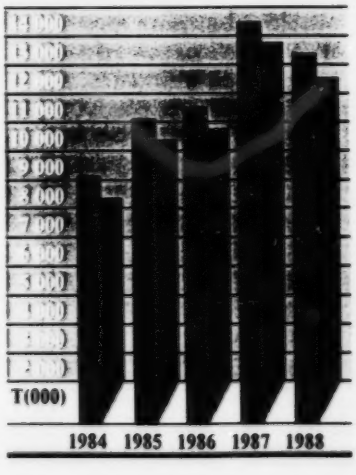
Favourable financial results with net income of $5.2 million.

Total cargo throughput of 12.4 million tonnes.

Advancement of key corporate strategic issues.

Aggressive marketing activities.

TOTAL TRAFFIC



JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE GENERAL MANAGER AND CHIEF EXECUTIVE OFFICER

The Prince Rupert Port Corporation is pleased to report activities and results for the 1988 year. Corporate activities during the year focussed on strategic issues that will affect the future development and utilization of the port and the achievement of the social and economic objectives of the Corporation.

Central to this task is the $37.9 million expansion of the port owned Fairview Terminal. Following project approval received in late 1987, the port has appointed project managers, completed design work, initiated construction and ultimately was in a position to award the major construction contract by the end of 1988. This project, which will increase terminal storage space by 35 percent and add an additional ship berth, will ensure that Canadian exporters of forest products have an effective and efficient gateway through which markets around the world can be reached for years to come. Moreover, the investment decision is consistent with the Corporation's financial objectives.

Although the Fairview Expansion results in considerable activity, significant development critical to the development of the port is occurring in a number of other areas.

To ensure that the port is taking advantage of all business opportunities and to broaden the cargo hinterland, the port's marketing program has been strengthened and intensified. Key elements include: transportation costing, identifying cargo/commodity potential and direct sales. Simultaneously, efforts are dedicated to planning for additional facilities as dictated by the commercial opportunities and assessing the level of utilization and terminal configuration of existing facilities using engineering and operations research techniques. The linkage between the marketing and engineering efforts are considered key to developing facilities in a timely manner consistent with Canadian import/export needs.

A major strategic issue confronting the port is the lack of developable property on the waterfront. A land use management plan is being developed of existing properties and further identifies properties of strategic value to the port that should be considered for acquisition. This initiative is critical if the port is to satisfy its objectives of developing the waterfront consistent with national, regional and local needs.

In 1988, cargo throughput at the Port of Prince Rupert totalled 12.4 million tonnes, which is an 8 percent decline over the 1987 results. This decline is attributed to the disastrous drought in Canada's grain-growing areas, which limited exports and consequently throughput at the port. Grain traffic dropped to 3.68 million tonnes from 4.8 million tonnes. Coal traffic and pulp shipments were the bright spots at the port. Those commodities were up 5 percent to 6.7 million tonnes and 10 percent to 400,000 tonnes respectively. Traffic of one million tonnes at the port owned Fairview Terminal was about the same as last year. Lumber throughput, the prime commodity at the terminal, was 806,000 tonnes, down marginally from the previous year. A decline in the port's major lumber markets just at the end of the year prevented another record year in that commodity.

Both cruise and ferry passengers were up in 1988. The number of cruise passengers improved by 4 percent to 9,466 while ferry passengers increased by 12 percent to 183,289.

Notwithstanding the decline in overall tonnage, total vessel activity in the harbour was up slightly to 1,620 commercial vessels which indicates clearly the continued level of activity in the port.

Financial results for the Corporation in 1988 were favourable. At $14.6 million, operating revenues were down marginally from 1987. However, operating income showed a 10 percent improvement to $3.9 million due to reduced expenditures. Net income was up 20 percent to $5.2 million. These financial results are particularly gratifying as they give the port the financial resources to fund development projects at a time when opportunities are favourable.

The success of the Port of Prince Rupert is due to the effort and dedication of individuals and corporations working in unison. The port would like to thank all that are part of the waterfront team for their commitment. The upcoming 1989 year will present new challenges which we are confident can be met with the continued support of the industry. We look forward to the new experiences and opportunities.

Allan T. Sheppard
Chairman of the Board

Robert W. Tytaneck
General Manager and
Chief Executive Officer

AUDITORS' REPORT

To the Honourable Benoît Bouchard,
P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Prince Rupert Port Corporation as at December 31, 1988, and the statements of income and surplus to Canada and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and the Letters Patent and By-laws of the Corporation

Thorne Ernst & Whinney

Chartered Accountants
Vancouver, British Columbia
February 8, 1989

Balance Sheet as at December 31, 1988

	1988	1987
Assets		
Current Assets		
Cash	$ 54,386	$ 50,506
Investments (note 1)	16,431,572	11,847,375
Accounts receivable	861,425	950,357
Materials and supplies	93,664	67,322
	17,441,047	12,915,560
Property and Equipment (note 2)	71,272,047	71,312,750
	$88,713,094	$84,228,310
Liabilities and Equity of Canada		
Current Liabilities		
Accounts payable and accrued liabilities	$ 686,166	$ 546,908
Payable to Canada	18,868	2,965
Grants in lieu of municipal taxes	394,598	368,140
Deferred revenues	149,330	162,216
	1,248,962	1,080,229
Recoverable Contribution from Canada (note 3)	48,300,000	48,300,000
	49,548,962	49,380,229
Equity of Canada		
Contributed capital	31,311,805	31,311,805
Surplus	7,852,327	3,536,276
	39,164,132	34,848,081
	$88,713,094	$84,228,310

Commitments (note 4)

Approved by the Board:

Allan T. Sheppard
Chairman

Robert W. Tytaneck
General Manager and
Chief Executive Officer

Statement of Income and Surplus

year ended December 31, 1988	1988	1987 (as restated note 6)
Revenue from operations	$14,585,020	$14,852,377
Expenses		
Operating and administrative	9,563,862	9,776,591
Depreciation (note 2)	697,684	1,136,992
Grants in lieu of municipal taxes	407,665	405,538
	10,669,211	11,319,121
Income from operations	3,915,809	3,533,256
Other income (expense)		
Interest income	1,257,306	781,979
Settlement of litigation (note 6)	87,507	(350,000)
	1,344,813	431,979
Net income	5,260,622	3,965,235
Surplus (deficit) at beginning of year	3,536,276	(5,838,325)
	8,796,898	(1,873,090)
Deficit reduction	—	6,188,325
	8,796,898	4,315,235
Dividend to Canada	944,571	778,959
Surplus at end of year	$7,852,327	$3,536,276

Statement of Changes in Financial Position

year ended December 31, 1988	1988	1987
Cash provided by (used for)		(as restated note 6)
Operations		
Net income	$ 5,260,622	$ 3,965,235
Items not involving cash		
Depreciation	697,684	1,136,992
Settlement of litigation	—	350,000
	5,958,306	5,452,227
Changes in non-cash operating working capital		
Accounts receivable	88,932	(384,073)
Materials and supplies	(26,342)	12,606
Accounts payable and accrued liabilities	139,258	19,145
Grants in lieu of municipal taxes	26,458	16,429
Deferred revenues	(12,886)	(24,035)
	6,173,726	5,092,299
Financing		
Increase in payable to Canada	15,903	2,965
Forgiveness of loans from Canada	—	(38,110,991)
Increase in contributed capital	—	38,110,991
Dividend to Canada	(944,571)	(778,959)
	(928,668)	(775,994)
Investments		
Purchase of property and equipment	(656,981)	(425,693)
Decrease in receivable from Canada	—	63,937
	(656,981)	(361,756)
Increase in cash position	4,588,077	3,954,549
Cash position at beginning of year	11,897,881	7,943,332
Cash position at end of year	$16,485,958	$11,897,881

Cash position is defined to include cash plus investments.

Notes to Financial Statements
December 31, 1988

Local Port Corporation

The Prince Rupert Port Corporation was established effective June 1, 1984 as a local port corporation pursuant to the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

On June 1, 1984, all the assets and liabilities of Canada Ports Corporation relating to the Port of Prince Rupert were transferred to the Corporation at their book value as recorded by Canada Ports Corporation. The net liabilities assumed were recorded as contributed capital of $678,275 and a deficit of $11,673,894.

Summary of Significant Accounting Policies

Investments
The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to marturity.

Property and equipment
Property and equipment are recorded at cost. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related property and equipment.

Depreciation is calculated on the straight-line basis using rates based on the estimated useful lives of the assets.

Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits
The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

1 Investments

	1988	1987
Amortized cost	$16,431,572	$11,847,375
Market value	$16,377,031	$11,839,614

2 Property and Equipment

(a) Summary

		1988			1987
		Cost	Accumulated Depreciation	Net	Net
Land	—	$60,126,625	$ —	$60,126,625	$60,126,625
Dredging	2.5-6.7	5,177	1,424	3,753	3,883
Berthing structures	2.5-10	8,699,242	3,022,833	5,676,409	5,914,072
Buildings	2.5-10	2,362,861	457,593	1,905,268	1,954,216
Utilities	3.3-10	2,597,237	1,291,956	1,305,281	1,409,548
Roads and surfaces	2.5-10	3,512,385	2,123,922	1,388,463	1,613,842
Machinery and equipment	5-10	1,704,860	1,457,925	246,935	252,453
Office furniture and equipment	20	257,830	157,888	99,942	38,111
Construction in progress		519,371	—	519,371	—
		$79,785,588	$8,513,541	$71,272,047	$71,312,750

(b) Depreciation

Depreciation consists of:

	1988	1987
Depreciation expense	$697,684	$ 714,841
Write-down of equipment	—	422,151
	$697,684	$1,136,992

3 Recoverable Contribution from Canada

A recoverable contribution of $50,400,000 was approved for the construction of the infrastructure for the coal terminal facility on Ridley Island. The recoverable contribution as at December 31, 1988 was $48,300,000.

The total recoverable contribution is interest-free until April 1, 1989, and thereafter bears interest at approximately 13.9%.

Principal and interest on $48,300,000 of the contribution are repayable over 20 years, commencing on April 1, 1989, contingent upon the revenues received from a direct coal throughput surcharge of $.44 per tonne, at a minimum of $2,900,000 but not to exceed $5,300,000 per year.

4 Commitments

(a) At December 31, 1988, commitments in connection with construction of a new berth at Fairview Terminal amounted to approximately $30,772,000.

(b) The corporation rents a building under a long-term operating lease which expires May 1, 1991, the annual rental rate for which is $81,264. The aggregate rental payable to the expiry date amounts to $189,616.

5 Related Party Transactions

(a) During the year, the Corporation received revenue of $1,274,593 (1987, $1,112,764) from Ridley Terminals Inc., a company in which Canada Ports Corporation has a significant investment. At December 31, 1988, the Corporation was owed $124,961 by Ridley Terminals Inc. (1987, $100,290).

(b) During the year the Corporation paid $485,279 (1987, $434,784) to Canada Ports Corporation as its share of that corporation's head office expense.

6 Settlement of Litigation

During 1987, the Corporation settled a law suit for $350,000 relating to a dispute over the settling of the Ridley Island Rail Embankment. Since the suit arose in a prior period, the settlement was accounted for as a prior period adjustment. In view of the significant involvement of management in obtaining this settlement, it has been determined that it is appropriate to account for this item as a charge to 1987 income rather than as a prior period adjustment. This change has no effet on the 1988 accounts and results in decreasing 1987 net income and decreasing deficit at January 1, 1987 (as restated) by $350,000.

BOARD OF DIRECTORS

Allan T. Sheppard *
Chairman
Owner/Manager
Port Edward Marine Services
Prince Rupert, B.C.

Dolores D. MacIntosh *
Vice-Chairman
Property Manager
Prince Rupert, B.C.

John T. Payne */**
General Manager
Universal Stores Inc.
Prince Rupert, B.C.

John D. McNish **
Manager
Credit Bureau of Prince Rupert
Prince Rupert, B.C.

William B. Hick
Physician (Retired)
Prince Rupert, B.C.

Donald Seidel
Manager
Prince Rupert Motors Ltd.
Prince Rupert, B.C.

Ronald A. Ciccone
Agent
Mutual Life of Canada
Prince Rupert, B.C.

* Executive Committee
** Audit Committee

OFFICERS OF THE CORPORATION

Allan T. Sheppard
Chairman

Robert W. Tytaneck
General Manager and Chief Executive Officer

Don H. Krusel
Manager, Finance and Administration

Joseph A. Stranan
Manager, Marketing and Planning

Terrence R. Andrew
Director, Technical Services

PORT OF QUÉBEC

CORPORATION

PERFORMANCE HIGHLIGHTS

Total volume of 18.2 million tonnes of cargo.

$12 million investment to build a new container terminal.

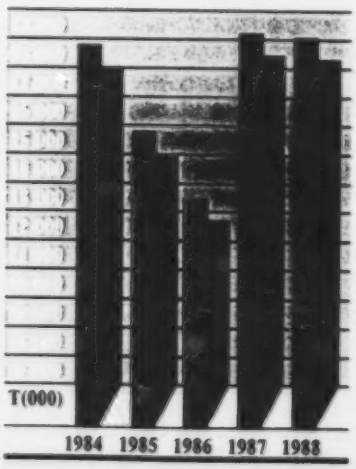
$10 million investment to increase handling speed and productivity at Beauport solid bulk terminal.

Construction of a new phosphorus terminal.

Maximum draft increased to 15.5 meters.

Publication of a study evaluating local economic impact of cruise shipping at $2.2 million.

TOTAL TRAFFIC



JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The Port of Québec is proud to present its annual report for 1988, an outstanding year from a corporate and commercial perspective, as the port targeted increased productivity, new business development and a diversified revenue base.

Increased shipments of petroleum products, minerals and general cargo contributed to an overall performance of 18.2 million tonnes, close to the record 18.3 million tonnes of cargo handled in 1987. This was achieved in spite of a significant decline in the volume of grain moved through the St. Lawrence Seaway.

The Port of Québec consolidated its position as the leading transshipment port serving the Great Lakes. Shipments of iron ore, destined principally to US steel mills, rose to 3.6 million tonnes, up 13 percent over 1987 figures. Deep water, geographic location and intermodal transportation links make the Port of Québec very competitive in this growing market.

These advantages also helped the port grow as a center for the distribution of petroleum products. With a dockside depth of more than 16 meters, Ultramar Canada welcomes vessels of 150,000 deadweight tonnes, supplying its refinery with crude oil. A total of 8.7 million tonnes of hydrocarbons were handled in 1988, principally at the Ultramar pier, compared to 7.8 million tonnes in 1987.

A new facility was inaugurated in the liquid bulk sector, as Intertank Inc. completed construction of a 7,000 tonne capacity phosphorus reservoir.

The Port of Québec also had an excellent year in general cargo. Shipments of newsprint grew from 107,000 tonnes in 1987 to 152,000 tonnes in 1988. Exports of granite, an increasingly popular building material, prompted two shipping lines to make Québec the port of call for a new, regular service to Italy. A total of 69,000 tonnes of granite were handled in 1988, compared to only 11,000 tonnes during the previous year.

Financial Highlights
A brief summary of financial results for 1988 shows overall revenues of $13.5 million and a net income of $1.3 million.

Major Development Projects
Inspired by the Port of Québec's potential for future growth, the Corporation launched two ambitious development projects in 1988.

A $10 million investment will double annual throughput capacity from 3 to 6 million tonnes at the Beauport solid bulk terminal, consolidating the port's position as the leading transshipment center on the St. Lawrence. When construction is completed in 1990, a new 1,000-meter conveyor system will permit direct ship-to-ship cargo transfers while facilitating simultaneous unloading and loading operations for products such as iron ore, coal, copper and cement.

A $12 million investment will mark the return of containerized shipping to the Port of Québec. When operations begin in 1990, the new terminal will provide an important asset to regional industries, in particular the Glaverbec flat glass factory under construction in suburban Québec City. The terminal will also be capable of handling the largest ships in the world container trade.

These two development projects are complemented by a vast preventive maintenance program introduced to safeguard and improve the Corporation's assets.

A Valued Corporate Citizen
To maximize the economic and social benefits of maritime activity, the Port of Québec initiated a program to enhance its position in the regional community. This management philosophy resulted in the recreational development of property unsuited for port operations. The Corporation also conducted a major public information campaign.

The Port of Québec Corporation will pursue the development strategy implemented in 1988, emphasizing productivity, diversification and marketing.

In spite of hard times in the grain trade, the overall outlook for the port is encouraging. The growing use of deep-draft vessels in maritime transportation,

combined with new, modern and efficient handling equipment for bulk and container operations, will provide the Port of Québec with a significant technical advantage in the near future. In collaboration with its business partners, the port administration will continue to devote every effort to making Québec a leader in maritime transportation.

Guy Boulanger f.c.a.
Chairman of the Board

Ross Gaudreault
President and Chief Executive Officer

AUDITORS' REPORT

To the Honourable Benoît Bouchard,
P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Port of Québec Corporation as at December 31, 1988 and the statements of income, contributed capital, surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the port as at December 31, 1988 and the results of its operations and the changes of its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and by-laws of the Corporation.

Thorne Ernst - Whinney
Chartered Accountants
Québec, Quebec
February 10, 1989

Balance Sheet as at December 31, 1988

Assets	1988	1987
Current Assets		
Cash	$ 500,552	$ 65,877
Investments (note 1)	18,018,706	14,350,583
Accounts receivable	2,655,573	3,317,994
Materials and supplies	131,856	75,831
	21,306,687	17,810,285
Investments (note 1)	6,676,546	6,650,201
Property, Plant and Equipment (note 2)	42,337,986	43,466,432
	$70,321,219	$67,926,918
Liabilities and Equity of Canada		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,955,951	$ 2,079,649
Grants in lieu of municipal taxes	398,200	344,000
Deferred revenues	795,178	788,842
	3,149,329	3,212,491
Long term		
Accrued employee benefits	810,200	768,478
Equity of Canada (note 3)		
Contributed capital	63,182,198	61,759,198
Surplus	3,179,492	2,186,751
	66,361,690	63,945,949
	$70,321,219	$67,926,918

On behalf of the Board:

Guy Boulanger, f.c.a.
Chairman

Ross Gaudreault
President and
Chief Executive Officer

Statement of Income

year ended December 31, 1988	1988	1987
Revenue from operations	$11,177,475	$10,634,983
Expenses		
Operating and administrative expenses	9,118,893	7,482,804
Depreciation	1,995,468	1,941,183
Grants in lieu of municipal taxes	1,053,686	806,713
	12,168,047	10,230,700
Income (loss) from operations	(990,572)	404,283
Investment income	2,290,572	1,786,580
Net Income	$ 1,300,000	$ 2,190,863

Statement of Contributed Capital

year ended December 31, 1988	1988	1987
Balance at beginning of year	$61,759,198	$107,251,631
Contribution from Canada (note 4)	1,423,000	—
Contribution to Canada	—	(21,735,000)
Reduction of deficit (note 3)	—	(23,757,433)
Balance at end of year	$63,182,198	$ 61,759,198

Statement of Surplus

year ended December 31, 1988	1988	1987
Surplus (deficit) at beginning of year	$2,186,751	$ (23,757,433)
Reduction of deficit (note 3)	—	23,757,433
Net income	1,300,000	2,190,863
Dividend to Canada	(307,259)	(4,112)
Surplus at end of year	$3,179,492	$ 2,186,751

Statement of Changes in Financial Position

year ended December 31, 1988	1988	1987
Cash provided by (used for)		
Operations		
Net income	$ 1,300,000	$ 2,190,863
Items not affecting cash		
Amortization of discount on Canada Government bonds	(26,345)	(26,345)
Depreciation	1,995,468	1,941,183
Loss (gain) on disposal of property, plant and equipment	(53,145)	30,394
Accrued employee benefits	41,722	30,978
Changes in non-cash operating working capital (note 5)	543,234	(1,717,137)
	3,800,934	2,449,936
Investment		
Additions to property, plant and equipment	(874,918)	(509,124)
Proceeds on disposal of property, plant and equipment	58,152	22,605
Others	2,889	—
	(813,877)	(486,519)
Financing		
Contributed capital	1,423,000	(45,492,433)
Contribution to Canada	—	21,735,000
Reduction of deficit	—	23,757,433
Dividend to Canada	(307,259)	(4,112)
	1,115,741	(4,112)
Increase in cash position	4,102,798	1,959,305
Cash position at beginning of year	14,416,460	12,457,155
Cash position at end of year	$18,519,258	$14,416,460
Cash position is represented by:		
Cash	$ 500,552	$ 65,877
Investments	18,018,706	14,350,583
	$18,519,258	$14,416,460

Notes to Financial Statements
year ended December 31, 1988

General
The Port of Québec Corporation was incorporated on June 1, 1984, under article 6.2(1) of the *Canada Ports Corporation Act*.

Summary of Significant Accounting Policies

Investments
Investments are direct securities guaranteed by Canada. They are presented at amortized cost and the premium or discount is amortized over the periods to maturity.

Property, plant and equipment
Property, plant and equipment are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants received from Canada and from third parties for capital projects are deducted from the cost of the related property, plant and equipment.

Depreciation is calculated using the straight line method, once the assets become operational for an entire year, using the following annual rates:

Dredging	2,5%-6,7%
Berthing structures	2,5%-10%
Buildings	2,5%-10%
Utilities	3,3%-10%
Roads and surfaces	2,5%-10%
Machinery and equipment	5%-20%
Office furniture and equipment	20%

Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

Insurance
The Port of Québec Corporation assumes all risks with respect to compensation claims for occupational injury. Any costs arising from these claims are recorded in the accounts in the year they can be reasonably estimated.

Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

Employee benefits
Every year the Corporation accounts for estimated liabilities relating to severance pay, annual leave and overtime compensatory leave; these benefits are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

Investments
Investments, which are direct securities guaranteed by Canada, are as follows:

	1988		1987	
	Cost	Market Value	Cost	Market Value
Current	$18,018,706	$17,947,547	$14,350,583	$14,360,850
Long term	$ 6,676,546	$ 7,208,678	$ 6,650,201	$ 7,225,330

2 Property, Plant and Equipment

	1988			1987
	Cost	Accumulated depreciation	Net	Net
Land	$11,098,253	$ —	$11,098,253	$11,043,597
Dredging	4,561,341	3,951,308	610,033	638,094
Berthing structures	22,636,930	16,677,704	5,959,226	6,364,123
Buildings	33,469,919	14,309,763	19,160,156	19,945,183
Utilities	3,674,038	2,136,097	1,537,941	1,481,989
Roads and surfaces	5,930,727	3,560,897	2,369,830	2,672,073
Machinery and equipment	527,604	388,377	139,227	125,700
Office furniture and equipment	620,747	389,211	231,536	221,716
Projects under construction	1,231,784	—	1,231,784	973,957
	$83,751,343	$41,413,357	$42,337,986	$43,466,432

3 Equity of Canada

In 1987, the Minister of Transport approved the elimination of the accumulated deficit to January 1, 1987 totaling $23,757,433, by reducing the contributed capital by the same amount.

4 Contribution from Canada

Persuant to a resolution from the Treasury Board, the ministry of Transport has transferred at no cost on January 1, 1988, the administration, management, control and property of certain assets previously managed by Société Immobilière du Canada (Vieux Port de Québec) Inc. The ministry of Transport of Canada paid to the Corporation a total amount of $1,423,000 as a compensation to help absorb the estimated operating deficits for the next five years. This amount has been credited to contributed capital.

5 Changes in Non-cash Operating Working Capital

	1988	1987
Accounts receivable	$662,421	$(1,557,064)
Materials and supplies	(56,025)	(7,050)
Accounts payable and accrued liabilities	(123,698)	28,808
Grants in lieu of municipal taxes	54,200	(310,808)
Deferred revenues	6,336	128,977
	$543,234	$(1,717,137)

6 Related Party Transactions

During the year, the Corporation entered into transactions with related entities comprising various ministry, government organizations and Crown corporations.

Principally, the Corporation earned rental revenues from related entities totaling $1.1 million ($1.2 million in 1987). Expenses paid to related parties mainly consist in management fees and amount to $728,000.

7 Contingencies

Claims aggregating approximately $1,500,000 have been received by the Corporation in respect of lawsuits, warranties, collective agreements, damages allegedly suffered on Corporation property and various other matters in dispute. In the Corporation's view, its position is defensible and these claims should not result in any material losses.

In addition, claims for an estimated amount of $2,000,000 have been received by the Corporation concerning the ownership of certain lands. Any amount payable in connection with those claims will be capitalized to the cost of land.

These amounts are not recorded in the financial statements.

BOARD OF DIRECTORS

Guy Boulanger, f.c.a.*
Chairman
Associate
Caron Bélanger
Québec, Que.

Raymond Stuart McBain*
Vice-Chairman
President
Ver-Mac Inc.
Sainte-Foy, Que.

Denise Rancourt-Bélanger*
Lawyer
Lévis, Que.

Yvon Dolbec
President
Dolbec Y. Logistique Int'l Inc.
Sainte-Foy, Que.

Claude Gagné
Sales Representative
Toshiba of Canada Ltd.
Vanier, Que.

Roméo Savard
Foreman
International Longshoremen's Association
Québec, Que.

* Members of the Executive Committee

OFFICERS OF THE CORPORATION

Guy Boulanger, f.c.a.
Chairman

Ross Gaudreault
President and Chief Executive Officer

Louis-Philippe Cormier
Director, Administration

Mario Bernard
Director, Finance

Yvon Bureau
Director, Operations

Marc Dulude
Director, Marketing

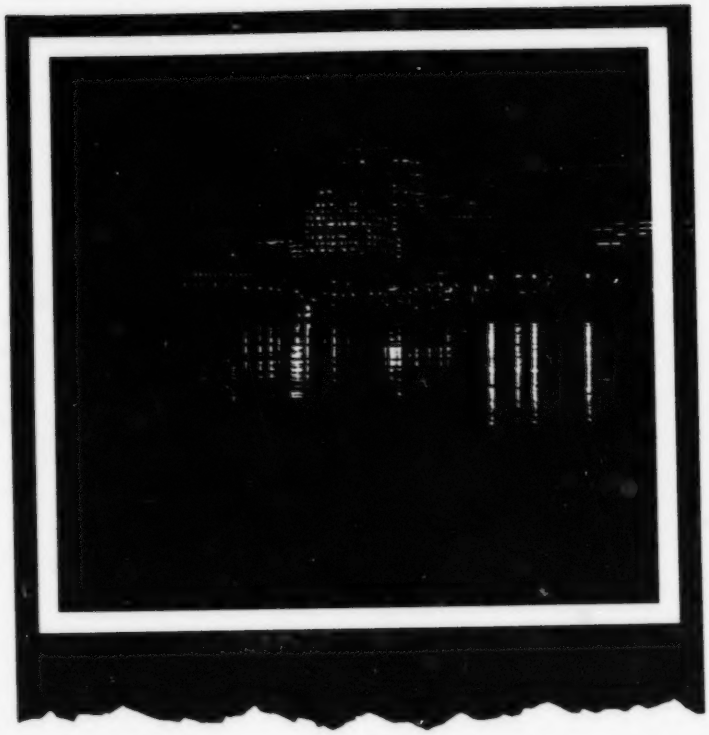
Raymond Leclerc
Director, Engineering and Maintenance

André Boulet
Director, Police and Security

Dave Johanson
Director, Promotion

Yvon Lambert
Director, Human Resources

Gary Q. Ouellet, c.r.
Corporate Secretary



SAINT JOHN PORT CORPORATION

PERFORMANCE HIGHLIGHTS

Total port traffic increased to 14.9 million tonnes.

Shipments of potash were up 25% to 1.6 million tonnes.

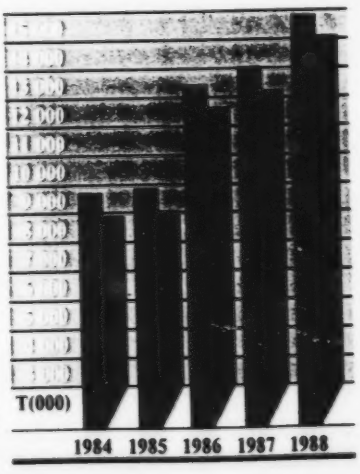
Forest products traffic grew by 17% to 812,000 tonnes.

Three shipping lines decide to make Saint John a regular port of call.

Positive net income for first year since 1984.

Port Council created to coordinate marketing.

TOTAL TRAFFIC



JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE GENERAL MANAGER AND CHIEF EXECUTIVE OFFICER

Significant progress was made in improving port performance in 1988. Traffic growth coupled with operating efficiencies have produced encouraging financial results. The port is now in a better position to compete in the highly competitive international market place.

Traffic Growth
Cargo through the port increased by 14 percent to 14.9 million tonnes. Increases were realized in a number of important traffic sectors. Potash shipments were up 25 percent to 1.6 million tonnes and forest products increased by 17 percent to 812,000 tonnes on the strength of pulp and paper shipments. Petroleum traffic grew by 14 percent to 11.4 million tonnes. Other dry bulk commodities such as grain, sugar and salt continued at traditional volumes. While container traffic declined, there were encouraging signs of new traffic opportunities as during the year three shipping lines decided to begin regular calls at the port.

In 1988, the Corporation entered into a new long-term agreement with Forest Products Terminal Ltd. for the operation of the Navy Island forest products terminal. The year also brought a new operator for the port's grain elevator when Cargill Limited took over the operations of the terminal. These relationships provide further opportunities for continued traffic growth.

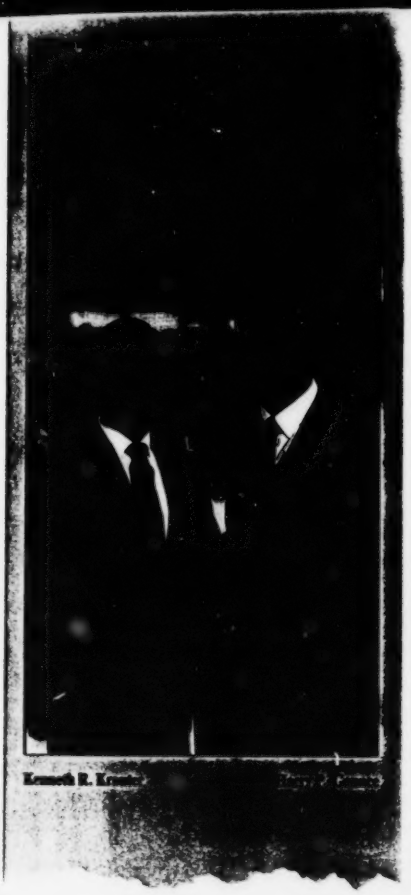
Financial Highlights
Favourable traffic results coupled with effective control of operating expenses has produced a profit for the Corporation for the first time in four years. Revenue from operations increased to $11.6 million while operating expenses were contained to the same level as the previous year. Income from operations before unusual items increased to $2.4 million and net income reached $2.1 million. These financial improvements contributed to a 39 percent increase in the cash and investment position of the Corporation. The results portrayed in the annual report demonstrate the achievement of the corporate objective of improving financial performance and achieving and sustaining a positive net income.

Marketing Program
Significant advances were made in pursuing an active marketing program for the port. New Directors of Trade Development and Marketing joined the Corporation during the year. International marketing trips were made to the United Kingdom, Northern Europe, Scandinavia, several countries in South America and Greenland. In addition, the marketing program was expanded in North America. Market studies of selected traffic sectors identified potential new traffic opportunities for the port.

The Corporation continues to maintain close liaison with the provincial government with respect to trade development. The Board of Directors held a Board meeting in Fredericton, the provincial capital, and met with Cabinet Ministers, Members of the Legislative Assembly, and Deputy Ministers to outline the direction of the Corporation and progress being made.

The Saint John Port Council was created in 1988 to increase cargo traffic through the port and coordinate marketing activities. The Council is comprised of representatives of key organizations in the port including: railways, labor, steamship lines, terminal operators and stevedores, steamship agents and the Corporation. The Council will be an increasingly important forum on operational aspects of the port and cargo development opportunities.

Note of Appreciation
The progress of the port is achieved through the collective efforts and support of people in many organizations. Our gratitude is extended to the men and women of the Corporation for their hard work and dedication in the past year. Companies working in and associated with the port, our many customers and port labor all played an important role in contributing to the successes of 1988. The continued support of the federal government, province of New Brunswick, Canada Ports Corporation, Mayor and Council of the City of Saint John and the Port Development Commission are greatly appreciated.



Future Outlook
We are confident of the ability of the port to continue to progress in traffic growth and financial performance in the coming year. An active marketing program directed at container and break-bulk traffic will strengthen the cargo base. The Corporation will continue to exercise sound management in order to meet its financial obligations and maintain profitability. This will increasingly enable the Corporation to make improvements to port facilities and terminals and better serve the needs of Canada's international trade.

Harry P. Gaunce
Chairman of the Board

K. R. Krauter

Kenneth R. Krauter
General Manager and
Chief Executive Officer

AUDITORS' REPORT

To the Honourable Benoît Bouchard,
P.C., M.P.
Minister of Transport:

We have examined the balance sheet of the Saint John Port Corporation as at December 31, 1988 and the statements of income, retained earnings, contributed capital and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Clarkson Gordon

Chartered Accountants
Saint John, Canada,
February 3, 1989.

Balance Sheet as at December 31, 1988 (in thousands of dollars)

	1988	1987
Current:		
Cash	$ 620	$ 260
Investments (note 3)	8,427	6,253
Accounts receivable	1,512	1,208
Materials and supplies	46	93
	10,605	7,814
Long-term investments (note 3)	956	952
Fixed assets (note 4)	79,960	82,734
	$91,521	$91,500
Liabilities and Equity of Canada		
Current liabilities:		
Accounts payable and accrued charges	$ 890	$ 3,044
Deferred revenues	279	273
Grants in lieu of municipal taxes	103	
	1,272	3,317
Accrued employee benefits	398	425
Financing provided by a province (note 5)	19,696	19,696
Loans from Canada (note 6)	20,052	20,052
	41,418	43,490
Equity of Canada:		
Contributed capital (note 7)	49,372	49,372
Retained earnings (deficit)	731	(1,362)
	50,103	48,010
	$91,521	$91,500

(See accompanying notes)

On behalf of the Board:

Harry P. Gaunce
Chairman

K. R. Krauter

Kenneth R. Krauter
General Manager and
Chief Executive Officer

Statement of Income	(in thousands of dollars)	
year ended December 31, 1988	**1988**	1987
Revenues:		
Harbour services	**$ 4,459**	$4,056
Rentals (note 8)	**5,616**	4,107
Shipping services and other	**1,567**	1,181
	11,642	9,344
Expenses:		
Salaries and employees' benefits	**2,867**	3,834
Purchased services	**903**	593
Energy and utilities	**254**	345
Operating and administrative	**1,829**	1,738
Grants in lieu of municipal taxes	**727**	54
Depreciation	**2,700**	2,659
Gain on disposal of fixed assets	**(16)**	(6)
	9,264	9,217
Income from operations before undernoted items	**2,378**	127
Unusual item:		
Gain on disposal of land	**1,218**	222
Income from operations	**3,596**	349
Investment income	**860**	702
Interest expense	**(2,363)**	(2,413)
	(1,503)	(1,711)
Net income (loss) for the year	**$ 2,093**	$(1,362)

Statement of Contributed Capital	(in thousands of dollars)	
year ended December 31, 1988	**1988**	1987
Balance, beginning of year	**$49,372**	$ 79,209
Add: Forgiveness of non-interest bearing loans (note 7)		47,791
	49,372	127,000
Less: Contribution to Canada (note 7)	**—**	1,033
Deficit reduction (note 7)	**—**	76,595
Balance, end of year	**$49,372**	$ 49,372

Statement of Retained Earnings	(in thousands of dollars)	
year ended December 31, 1988	**1988**	1987
Balance, beginning of year as previously reported	**$(1,362)**	$76,595
Deficit reduction (note 7)		76,595
Balance, as restated	**(1,362)**	—
Net income (loss) for the year	**2,093**	(1,362)
Balance, end of year	**$ 731**	$(1,362)

(See accompanying notes)

Statement of Cash Flows

(in thousands of dollars)

year ended December 31, 1988	1988	1987
Cash provided by (used in):		
Operations:		
Net income (loss) for the year	$2,093	$(1,362)
Add (deduct) items not requiring a cash payment:		
Depreciation	2,700	2,659
Gain on disposal of fixed assets	(1,234)	(228)
Other	9	(48)
	3,568	1,021
Net change in non-cash working capital balances related to operations (note 9)	(2,300)	1,882
Cash provided by operations	1,268	2,903
Financing:		
Repayment of loans from Canada	—	(512)
Investing:		
Additions to fixed assets	(785)	(1,039)
Proceeds on disposal of fixed assets	1,252	228
Recovery on Musquash Harbour Project	799	—
	1,266	(811)
Increase in cash and short-term investments during current year's activities	2,534	1,580
Cash and short-term investments, beginning of year	6,513	4,933
Cash and short-term investments, end of year	$9,047	$6,513

(See accompanying notes)

Notes to Financial Statements
December 31, 1988

1 Canada Ports Corporation Act and Incorporation

In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of Saint John was approved and the Saint John Port Corporation was established effective at the closing of business on December 31, 1986 and commenced operations January 1, 1987.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred to the Saint John Port Corporation at their carrying values in the accounts of the Canada Ports Corporation — Port of Saint John.

2 Significant accounting policies

(a) Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

(b) Fixed assets
Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational using rates as follows:

Asset	Depreciation Rates %
Dredging	2.5 - 6.7
Berthing structures	2.5 - 10.0
Buildings	2.5 - 10.0
Utilities	3.3 - 10.0
Roads and surfaces	2.5 - 10.0
Machinery and equipment	5.0 - 100.0
Office furniture and equipment	20.0

(c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Insurance
The Corporation assumes substantially all risks against fire and general perils, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

(e) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(f) Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay and annual leave which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3 Investments

Investment are direct and guaranteed securities of Canada as follows: (in thousands of dollars)

	1988		1987	
	Amortized Cost	Face Value	Amortized Cost	Face Value
Canada Treasury Bills	$8,427	$8,780	$6,253	$6,479
Canada Bonds	$ 956	$1,000	$ 952	$1,000

Fixed assets

Fixed assets consist of the following: (in thousands of dollars)

	1988			1987
	Cost	Accumulated depreciation	Net Book Value	Net Book Value
Land	$ 30,363		$30,363	$30,063
Dredging	1,967	$ 1,479	488	507
Berthing structures	63,645	27,700	35,945	37,319
Buildings	15,566	8,047	7,519	7,941
Utilities	7,651	3,401	4,250	4,574
Roads and surfaces	4,779	4,097	682	936
Machinery and equipment	1,872	1,628	244	281
Office furniture and equipment	1,071	617	454	260
Work under construction	15		15	853
	$126,929	$46,969	$79,960	$82,734

Financing provided by a province

The Province of New Brunswick advanced $25,000,000 to partially finance the construction of Rodney Terminal Complex, Saint John. The Province will receive annual principal payments equal to approximately 47% of the net operating income of the terminal until the non-interest bearing advance is repaid. The cost of major repairs has been included in calculating the net operating income of the terminal and the current portion payable as at December 31, 1988 has been calculated accordingly. The Province is disputing this accounting treatment. Had net operating income not been reduced by the cost of these major repairs, the current portion payable would be approximately $920,000.

Loans from Canada

(in thousands of dollars)

	1988	1987
Term loans bearing interest at 11.0% to 12.43% maturing between December 31, 1998 and 2005	$20,052	$20,052

Contributed Capital

In 1987, the non-interest bearing loans in the amount of $47,791,000 were forgiven by Canada. This amount has been credited to contributed capital.

Payments from excess cash made in 1986 to Canada and treated as Contribution to Canada in the amount of $1,033,000 have been reclassified to contributed capital.

The Minister of Transport has approved a reduction of the deficit as at January 1, 1987 in the amount of $76,595,000 with a corresponding reduction in contributed capital.

Rental settlement

During the year, a rental dispute with several of the Corporation's tenants was settled. This dispute has been ongoing for several years and the Corporation had provided annually for its settlement based on their best estimate.

In 1988, $398,000 representing the excess provision over the settlement amount was taken into income. 1987 rental income was reduced by a settlement provision of $970,000.

9 Net change in non-cash working capital balances related to operations

This consists of the following:

	(in thousands of dollars)	
	1988	1987
Decrease (increase) in current assets:		
Accounts receivable	$ (304)	$ 862
Materials and supplies	48	36
	(256)	898
Increase (decrease) in current liabilities:		
Accounts payable and accrued charges	(2,153)	1,477
Deferred revenues	6	56
Grants in lieu of municipal taxes	103	(549)
	(2,044)	984
	$(2,300)	$1,882

10 Related party transactions

During the year the Corporation paid $728,000 (1987 — $652,000) to Canada Ports Corporation as its share of that Corporation's head office expense.

11 Comparative figures

The comparative figures have been reclassified to conform to the financial statement presentation adopted for 1988.

BOARD OF DIRECTORS

Harry P. Gaunce *
Chairman
President
Armstrong & Bruce Insurance Limited
Saint John, N.B.

Henry Meinhardt *
Vice-Chairman
President
Fundy Ventilation Limited
Saint John, N.B.

Fernand H. Lanteigne
Owner/General Manager
Les Chantiers Nord-Est Ltée
Société du câble de la Péninsule
Caraquet, N.B.

Edgar R. Cohen
Owner
Hoffman's Limited
Saint John, N.B.

David R. MacPherson
President and Business Manager
IBEW, Local 502
Saint John, N.B.

Joseph V. Streeter *
Investment Dealer
RBC Dominion Securities Inc.
Saint John, N.B.

Shirley A. McAlary
Agent
Air Canada
Saint John, N.B.

* Members of the Executive Committee

OFFICERS OF THE CORPORATION

Harry P. Gaunce
Chairman

Henry Meinhardt
Vice-Chairman

Kenneth R. Krauter
General Manager and Chief Executive Officer

Peter D. Clark
Director, Marketing

R. Adam McBride
Director, Finance and Administration

Captain Cy E. Pringle
Director, Engineering and Operations

Ardith L. Bartlett
Corporate Secretary

ST. JOHN'S PORT CORPORATION

PERFORMANCE HIGHLIGHTS

1,064 vessels with total gross tonnage of approximately 3.1 million tonnes, called at the port in 1988.

498,488 tonnes were handled at SJPC facilities, a 6.1% increase over 1987 figures.

Containerized cargo at SJPC facilities was 333,769 tonnes, or a total of 73,648 TEUs, a tonnage increase of 8% over 1987.

Operating income increased $169,000 over 1987 operating income.

Revenues from operations up at $2.7 million versus $2.4 million in 1987.

TOTAL TRAFFIC

JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE PORT MANAGER AND CHIEF EXECUTIVE OFFICER

The final results for the Corporation covering the year 1988 were better than our original forecast. Vessel arrivals at the port increased marginally at 3.6 percent, but the most significant increase was in the area of container traffic. Total containers handled increased by 16 percent, with a tonnage increase of 8 percent. The total tonnage through the port increased by 9 percent.

Fiscal Highlights

Operating income of $199,000 increased by $169,000 over 1987. Our 1988 budget estimated a loss of $135,000 in net income, but the port was successful in finishing the year with a profit of $61,000. Revenue from operations at $2.7 million was up from $2.4 million in 1987.

Capital expenditures at $1 million were below our original forecast; due mainly to the delay in the completion of the final phase of redevelopment at the Container Terminal. The final phase of this $9.6 million redevelopment project includes a $1.1 million fendering system now due for completion in early 1989. With the completion of this work, the Corporation will have a state-of-the-art general cargo, ro/ro and container operating facility.

During the year the borrowing program for this redevelopment was completed.

Terminal Expansion

With the closure of the railway in the province in September, 1988, incoming traffic through the port has increased. This trend is expected to continue and will be a major factor in the projected traffic growth. The two current shipping companies operating into the port — Atlantic Searoute Limited from Halifax and Atlantic Container Express from Montréal, have plans to increase scheduled calls and, by late 1990, expect to have five vessels per week operating into St. John's.

The terminal operator has requested additional space and the Corporation is endeavouring to obtain vacant property adjoining the container terminal. Such negotiations are still active and the port is optimistic that they will be successfully concluded in early 1989.

1988 Objectives

The Special Examination of the Corporation, as required by the *Financial Administration Act*, was carried out in 1988. The Special Examiner found reasonable assurance that no significant deficiencies existed in the system and practices of the Corporation. Other areas referred to in the examination will be recognized in future planning.

The marketing study, included in our 1988 corporate plan, was carried out during the year. The objectives were to identify opportunities, outside of present activities that might exist, and to also ensure that operating procedures in place could readily identify problems and concerns of present port users.

The study emphasized that there was nothing the port could do about the decline in offshore and foreign fishing vessel activity. The Corporation should continue to concentrate on providing satisfactory service to present users.

Future Outlook

The closure of the railway operation in the province and the agreement for the development of the Offshore Hibernia Oilfield were major factors affecting the future prospects for the Port of St. John's.

While offshore oil development is not expected to impact significantly on 1989 results, we do anticipate growth in cargo tonnage through the container terminal. The shipping companies are very optimistic that substantial growth will occur through 1989-1991. In anticipation of this growth, plans are in place for additional terminal expansion and we are making our views known on the future land use of railway property adjoining the container terminal location.

Construction requirements for offshore oil development are not expected to impact on port activities. Our objective is to have the supply vessels, which will be required to service offshore production facilities, operate out of the Port of St. John's. This will be a factor in proposed future expansion of port facilities.

The Board was very pleased that the year-end results showed a profit as opposed to a projected loss position. The efforts of the Port Manager and staff in achieving this result are indeed appreciated. With this approach and an ongoing policy of co-operation and support for our customers and members of the port community, the overall outlook for the future of the Port of St. John's is a very optimistic one.

Fred Milley
Chairman of the Board

David J. Fox P. Eng.
Port Manager and Chief Executive Officer

AUDITORS' REPORT

To the Honourable Benoît Bouchard,
P.C., M.P.
Minister of Transport

We have examined the balance sheet of the St. John's Port Corporation as at December 31, 1988, and the statements of income and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Deane Raymond

Chartered Accountants
St. John's, Newfoundland
February 17, 1989

Balance Sheet as at December 31, 1988

Assets	**1988**	1987
Current		
Cash	**$ 36,008**	$ 83,548
Investments (Note 3)	**1,920,228**	863,594
Accounts receivable	**361,184**	284,223
	2,317,420	1,231,365
Fixed (Note 4)	**14,563,595**	14,332,175
	$16,881,015	$15,563,540
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 776,689**	$ 495,085
Grants in lieu of municipal taxes	**93,175**	35,464
Deferred revenues	**278,696**	255,783
Current portion of loans from Canada	**200,622**	124,836
	1,349,182	911,168
Accrued employee benefits	**107,324**	87,764
Loans from Canada (Note 5)	**3,132,162**	2,332,784
	4,588,668	3,331,716
Equity		
Contributed capital	**10,131,636**	10,131,636
Surplus	**2,160,711**	2,100,188
	12,292,347	12,231,824
	$16,881,015	$15,563,540

Contingencies (Note 6)

On behalf of the Board:

Fred Milley
Chairman

David J. Fox P. Eng.
Port Manager and
Chief Executive Officer

Statement of Income and Surplus

year ended December 31, 1988	1988	1987
Revenue from operations	$2,707,306	$2,433,220
Operating and administrative expenses	1,718,025	1,527,745
Depreciation	747,357	808,049
Grants in lieu of municipal taxes	57,711	52,224
	2,523,093	2,388,018
Income from operations	184,213	45,202
Investment income	135,778	230,480
Interest expense	(259,468)	(146,785)
Net income	60,523	128,897
Surplus, beginning of year	2,100,188	2,123,765
	2,160,711	2,252,662
Dividend to Canada	—	152,474
Surplus, end of year	$2,160,711	$2,100,188

Statement of Changes in Financial Position

year ended December 31, 1988	1988	1987
Cash provided from (used for)		
Operating activities		
Net income	$ 60,523	$ 128,897
Depreciation	747,357	808,049
Other non-cash items	5,199	7,938
	813,079	944,884
Changes in		
Accounts receivable	(76,961)	10,925
Accounts payable and accrued liabilities	281,604	215,054
Grants in lieu of municipal taxes	57,711	(65,226)
Deferred revenues	22,913	84,364
Current portion of loans from Canada	75,786	68,003
	1,174,132	1,258,004
Financing activities		
Loans from Canada	799,378	875,164
Dividend to Canada	—	(152,474)
	799,378	722,690
Investing activities		
Proceeds on disposal of investments	—	936,295
Proceeds on disposal of fixed assets	20,283	57,900
Purchase of fixed assets	(984,699)	(5,040,968)
	(964,416)	(4,046,773)
Net cash provided (used)	1,009,094	(2,066,079)
Cash and short term investments, beginning of year	947,142	3,013,221
Cash and short term investments, end of year	$1,956,236	$ 947,142

Notes to Financial Statements
December 31, 1988

1 In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of St. John's was approved and the St. John's Port Corporation was established effective June 1, 1985.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation — Port of St. John's to the St. John's Port Corporation.

2 **Significant accounting policies**

a) Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

b) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is recorded on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates indicated in Note 4.

c) Pension Costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

d) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

e) Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years in accordance with its policy.

3. Investments

	1988		1987	
	Amortized Cost	Face Amount	Amortized Cost	Face Amount
Short term	$1,920,228	$1,935,300	$ 863,594	$ 897,300

4. Fixed Assets

		1988			1987
	Depreciation Rate	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land		$ 4,643,700		$ 4,643,700	$ 4,643,700
Berthing structures	2.5-10%	8,170,054	$5,404,346	2,765,708	2,821,573
Buildings	2.5-10%	1,615,922	1,225,289	390,633	421,406
Utilities	3.3-10%	3,123,735	675,359	2,448,376	2,580,329
Roads and surfaces	2.5-10%	4,173,992	896,653	3,277,339	3,586,506
Machinery and equipment	5-100%	222,257	77,441	144,816	145,948
Office furniture and equipment	20%	159,543	113,837	45,706	63,275
Projects under construction		847,317	—	847,317	69,438
		$22,956,520	$8,392,925	$14,563,595	$14,332,175

5 Loans from Canada

	1988	1987
Loans, bearing interest at 9.33% to 10.015%, maturing between 1997 and 2000, repayable in equal instalments of principal and interest of $521,516.	$3,332,784	$2,457,620
Principal instalments payable within one year	200,622	124,836
	$3,132,162	$2,332,784

The loans are unsecured.

Annual principal repayments in each of the next five years are as follows:
1989 — $200,622; 1990 — $220,036;
1991 — $241,331; 1992 — $264,689;
1993 — $290,309.

6 Contingent liabilities

Claims aggregating approximately $364,000 arising from alleged damages suffered on the Corporation's property have been received by the Corporation. The Corporation is a third party defendant, and has denied any liability, and no material loss is anticipated.

In addition, claims aggregating approximately $170,000 have been received arising from quantity overruns on capital projects. The Corporation is disputing these claims and no material loss is anticipated.

7 Subsequent event

Subsequent to the balance sheet date, the Corporation received approval of a capital grant in the amount of $3,400,000 from the federal government. The funds will be advanced to the Corporation over the years 1989 to 1991, and will be used to extend and upgrade port facilities.

BOARD OF DIRECTORS

Fred Milley
Chairman
St. John's, Nfld.

Faith Good
Vice-Chairman
St. John's, Nfld.

Tom Osborne
Owner
Tom Osborne Real Estate
St. John's, Nfld.

Paul Reynolds
Training Supervisor, Motorist Sales
Ultramar Canada Inc.
St. John's, Nfld.

Michael Walsh
General Chairman
Transportation Communications International Union
St. John's, Nfld.

Dermot Dobbin
President
BRADCO
St. John's, Nfld.

Art Puddister
Manager
Puddister Trading Co.
St. John's, Nfld.

OFFICERS OF THE CORPORATION

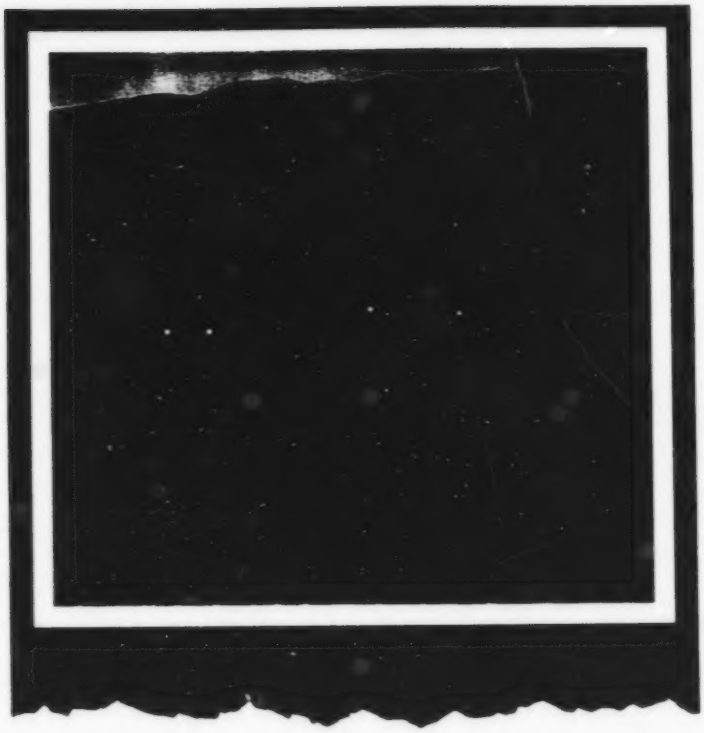
Fred Milley
Chairman

Faith Good
Vice-Chairman

David J. Fox
Port Manager and Chief Executive Officer

Brian Scott
Manager, Finance

Keith F. Rose
Corporate Secretary



VANCOUVER PORT CORPORATION

PERFORMANCE HIGHLIGHTS

Port sets all-time tonnage record at 71.3 million tonnes.

Bulk commodities lead cargo performances: wood chips up 30.9%; coal up 26.1%.

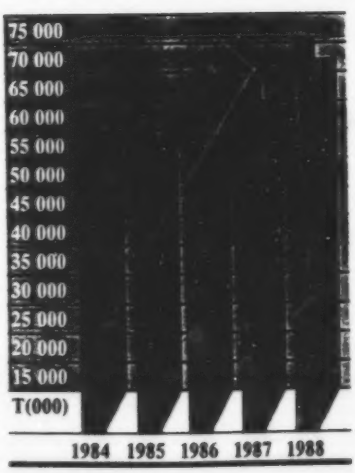
Port Economic Impact Study completed.

Marketing reps appointed in 10 Asian countries.

New cruise record set: 324,261 passengers, 209 sailings.

Employment equity program formally adopted.

TOTAL TRAFFIC



JOINT MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE PORT MANAGER AND CHIEF EXECUTIVE OFFICER

A Strategy of Strengths
By emphasizing its traditional strengths, the Port of Vancouver achieved its most successful year ever in 1988; recording a throughput of 71.3-million tonnes.

The export clout of western Canada's vast resources combined with the port's skills as a bulk handler to produce 86.5 percent of this total; some 60 percent of which represents trade with Asia-Pacific countries.

In addressing its role in the port's performance, the Vancouver Port Corporation (VPC) moved on several strategic fronts; ranging from land management and port development to marketing and employee relations. Financial self-sufficiency was a key corporate discipline; resulting in VPC reporting net income of $38.1 million for the year. This figure includes a gain on sale of land.

Record Cargo Performance
The spectacular tonnage performance achieved by the port's public and privately-owned cargo terminals was again led by the coal sector; posting a 26.1 percent gain over 1987. Major buyers of Canadian commodities were Japan, Korea and China.

Monitoring world market conditions, VPC noted continuing strong demand from the Japanese steel industry during 1988. Grain tonnage is expected to drop significantly in 1989, as Canadian producers contend with the consequences of severe Prairie drought. In the forest products sector, some softening in the lumber market was detected; however the performance of wood chips exceeded expectations with a 30.9 percent jump over 1987.

The port achieved record volumes in containers; 305,738 TEUs; or an increase of 8.5 percent. This performance was particularly remarkable, in view of the fact that industry sources reveal that 1988 saw an overall decline in the number of containers entering North America from the Pacific Rim. Moreover, Vancouver is recovering significant percentages of containers formerly being diverted to competing US ports prior to the resolution of the container clause issue. VPC noted an effective first 8-months of operation for the B.C. Container Gateway Council, chaired by Captain Perry.

Proactive Approaches
The twin imperatives of aggressive marketing and informed port development paced VPC's commitment to maintain Canada's largest port as a full service facility. In September, VPC appointed Jardine Shipping Agencies, Singapore, as marketing representatives for the Port of Vancouver in 9 Asian countries. Aurora Shipping of Tokyo represents the port in Japan. The Corporation logged three off-shore marketing missions (two Asian, one European) which included representatives of both the BCMEA and the ILWU.

Driving home the wide-spread benefits of port activities, VPC distributed results of its 10-month Economic Impact Study to government, industry and business, both locally and nationally.

Balancing Development and Competition
In common with other ports world-wide, the Port of Vancouver honed its port development strategies during 1988; seeking broader technical, commercial, and community data. VPC's land management programme will be further strengthened with completion of the Marine Recreational Use Study, and policies to support a Public Information Process for port development; both begun during 1988.

People Make Performance
Again in 1988 — it was VPC's "Port People" who produced the Corporation's excellent performance. We salute their outstanding efforts; our forward-thinking

Board of Directors, experienced management, and skilled staff worked as a team in a time of rapid change and expanding challenge.

We applaud as well our colleagues in the private sector. Together, we have earned Vancouver's #1 standing as "Canada's Front Door on the Pacific."

Captain Hector D. Perry
Chairman of the Board

Francis J. MacNaughton
Port Manager and Chief Executive Officer

AUDITORS' REPORT

To the Honourable Benoît Bouchard,
P.C., M.P.
Minister of Transport

We have examined the balance sheet of Vancouver Port Corporation as at December 31, 1988 and the statements of income and retained earnings and changes in cash resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations and the charter and by-laws of the Corporation.

Thorne Ernst + Whinney

Chartered Accountants
Vancouver, British Columbia
February 2, 1989

Balance Sheet as at December 31, 1988 (in thousands of dollars)

Assets	1988	1987
Current Assets		
Cash	$ 849	$ 527
Investments (note 1)	87,218	54,518
Accounts receivable	8,644	6,870
Materials and supplies	363	306
	97,074	62,221
Long-term receivables (note 2)	7,120	7,519
Property and Equipment (note 3)	187,492	181,751
	$291,686	$251,491
Liabilities and Equity of Canada		
Current Liabilities		
Accounts payable and accruals	$ 10,598	$ 2,367
Grants in lieu of municipal taxes	6,316	5,979
Deferred revenues	2,326	2,550
	19,240	10,896
Accrued employee benefits	1,164	1,169
Loan from Canada (note 4)	3,734	3,949
	24,138	16,014
Equity of Canada		
Contributed capital	88,273	88,273
Retained earnings	179,275	147,204
	267,548	235,477
	$291,686	$251,491

Commitment and contingency (note 5)

Approved by the Board:

Captain Hector D. Perry
Chairman

Colin B. Warner
Director

Statement of Income and Retained Earnings

(in thousands of dollars)

year ended December 31, 1988	1988	1987
Operating revenue	$ 51,780	$ 46,657
Expenses		
Operating and administrative expenses	19,441	17,715
Grants in lieu of municipal taxes	4,423	5,133
Depreciation	6,442	6,352
	30,306	29,200
Income from operations	21,474	17,457
Investment income	6,952	4,074
Interest expense	(343)	(325)
	6,609	3,749
Income before unusual item	28,083	21,206
Unusual item		
Gain on sale of land	10,000	—
Net Income	38,083	21,206
Retained earnings at beginning of year	147,204	131,814
	185,287	153,020
Less cash payment to Canada	6,012	5,816
Retained earnings at end of year	$179,275	$147,204

Statement of Changes in Cash Resources

(in thousands of dollars)

year ended December 31, 1988	1988	1987
Cash provided by (used for):		
Operations		
Net income	$38,083	$21,206
Items not involving cash		
Depreciation	6,442	6,352
Gain on sale of land	(10,000)	—
Other	479	111
Changes in non-cash operating working capital	6,513	(2,441)
	41,517	25,228
Financing		
Loans from Canada currently payable	(215)	(199)
Cash payment to Canada	(6,012)	(5,816)
	(6,227)	(6,015)
Investments		
Additions to property and equipment	(12,746)	(4,007)
Proceeds on sale of land	10,000	—
Other	478	426
	(2,268)	(3,581)
Increase in cash resources	33,022	15,632
Cash resources at beginning of year	55,045	39,413
Cash resources at end of year	$88,067	$55,045

Cash resources are defined to include cash and investments.

Notes to Financial Statements
year ended December 31, 1988

General

The Vancouver Port Corporation was established effective July 1, 1983 as a local port corporation pursuant to the *Canada Ports Corporation Act* and is a parent crown corporation named in Schedule III, Part II of the *Financial Administration Act*. The Corporation is exempt from income taxes.

The objectives of the Corporation are to manage and administer the harbour of Vancouver as an effective instrument in support of the national ports policy as set out in the *Canada Ports Corporation Act*.

Summary of Significant Accounting Policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles considered to be appropriate in the circumstances and consistently applied. A summary of the significant accounting policies of the Corporation is as follows:

Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis, commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Dredging	15 to 40 years
Berthing structures, buildings, roads and surfaces	10 to 40 years
Utilities	10 to 33 years
Machinery and equipment	1 to 20 years
Office furniture and equipment	5 years

Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. Although the Plan is a defined benefit plan, the contributions represent the total pension liability of the Corporation and are recognized in the accounts on a current basis.

Insurance
Except for property insured by tenants and contractors, the Corporation assumes all risks against fire and property damage, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the period incurred.

Grants in lieu of municipal taxes
Grants in lieu of municipal taxes are estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act*. After the amounts have been audited by the Municipal Grants Division of Public Works Canada, any adjustments upon finalization are reflected in the accounts in the period of settlement.

Employee benefits
The Corporation accrues in its accounts the estimated liabilities for severance pay and annual leave. These benefits are provided under collective agreements and corporate policy.

1 Investments

Current investments are in Government of Canada treasury bills and at December 31, 1988 and 1987 the market value of the treasury bills approximated carrying value.

2 Long-term receivables

(in thousands of dollars)

	1988	1987
Non-interest-bearing agreement with B.C. Rail, due as and when rail trackage is constructed on Roberts Bank causeway or April 1, 1994, whichever is earlier	$3,947	$3,947
Long-term agreement for sale of No. 1 Elevator, bearing interest at 6¾% per annum, payable in blended annual instalments of $462,916, maturing December 31, 1996	2,805	3,065
Less current portion	(277)	(260)
	2,528	2,805
Long-term agreement for sale of No. 3 Elevator, bearing interest at 5¾% per annum, payable in annual instalments of $117,720 plus interest, maturing August 1, 1994	706	824
Less current portion	(117)	(118)
	589	706
Other	56	61
	$7,120	$7,519

3 Property and Equipment

(in thousands of dollars)

	1988			1987
	Cost	Accumulated depreciation	Net	Net
Land	$ 76,403	—	$ 76,403	$ 76,403
Dredging	366	$ 190	176	188
Berthing structures	51,490	24,271	27,219	28,309
Buildings	43,963	10,490	33,473	33,892
Utilities	13,740	5,830	7,910	8,036
Roads and surfaces	30,639	17,043	13,596	15,184
Machinery and equipment	26,467	10,483	15,984	17,088
Office furniture and equipment	2,821	1,448	1,373	775
Projects under construction	11,358	—	11,358	1,876
	$257,247	$69,755	$187,492	$181,751

4 Loan from Canada

(in thousands of dollars)

	1988	1987
Interest-bearing loans at 7.5%, repayable in blended annual instalments, maturing December 31, 2000	$3,949	$4,148
Less current portion	(215)	(199)
	$3,734	$3,949

Principal repayment requirements over the next five years are as follows:

1989	$ 215,000
1990	230,000
1991	248,000
1992	266,000
1993	286,000
	$1,245,000

5 Commitment and Contingency

The Corporation has long-term lease obligations of varying durations to 1991 for office accommodation aggregating $1,655,000 with annual payments in each of the three years of:

1989	$ 662,000
1990	662,000
1991	331,000
	$1,655,000

At December 31, 1988 the Corporation had claims from municipalities for grants in lieu of taxes of approximately $6.6 million greater than the amount accrued in the financial statements.

6 Related Party Transactions

Through common ownership, the Corporation is related to all Government of Canada created departments, agencies and crown corporations.

In addition to the loan from Canada disclosed in note 4, the Corporation paid $1,779,000 (1987, $1,594,000) to Canada Ports Corporation as its share of that corporation's operating expenses and paid $6,012,000 to Canada as a cash payment in the current year. The Corporation has been requested to consider making a cash payment based on a percentage of its 1988 net income, payable to Canada by March 31, 1989.

BOARD OF DIRECTORS

Captain Hector D. Perry °
Chairman
Ganges, B.C.

Jane E. Frost **/°/∞
Vice-Chairman
Vancouver, B.C.

Laurie G. Maranda */**/∞
Vice President
Choukalos, Woodburn, McKenzie, Maranda Ltd.,
Consulting Engineers
Vancouver, B.C.

Richard I. Nelson */°
Vancouver, B.C.

Gary C.H. Short **
Vancouver, B.C.

Rodney A. Snow °/∞
Barrister and Solicitor
Davis & Co.
Vancouver, B.C.

Colin B. Warner *
Senior Vice President
Finance and Distribution
Weldwood of Canada Limited
Vancouver, B.C.

* Member, Audit Committee
** Member, Planning and Budget Committee
° Member, Executive Committee
∞ Member, Economic Development and Community Relations Committee

OFFICERS OF THE CORPORATION

Captain Hector D. Perry
Chairman

Francis J. MacNaughton
Port Manager and Chief Executive Officer

Captain Norman C. Stark
Deputy Port Manager and Chief Operating Officer

Donald G. Buggie
Assistant Port Manager, Administration

Phil L. Clark
Assistant Port Manager, Corporate Development

Thomas A. Shortridge
Assistant Port Manager, Port Services

Robin B.L. Kimpton
Corporate Secretary

CORPORATE DIRECTORY

Board of Directors

The Honourable A.R. Huntington
Chairman
Ottawa, Ont.

William Marsh
Vice-Chairman
Sydney, N.S.

Jean Michel Tessier
President and Chief Executive Officer
Canada Ports Corporation
Ottawa, Ont.

Dr. John Balkwill
Kanata, Ont.

Ronald Corey
Chairman, Montréal Port Corporation
President, Club de Hockey Canadien, Inc.
President, Montréal Forum Inc.
Montréal, Que.

Robert Dowling
President, Cavell Drugs Ltd.
Jasper, Alta.

Brian Keple
President
Regina Cartage & Storage
Regina, Sask.

Richard K. Lester
Vancouver, B.C.

A.R. "Sandy" MacLean
Principal
Dalhousie Regional High School
Dalhousie, N.B.

C. Peter MacLean
Vice President
J.W. MacDonald & Company Ltd.
New Glasgow, N.S.

Arnold E. Masters
Nun's Island, Que.

Donald A. Parker
Chairman
Halifax Port Corporation
Halifax, N.S.

Captain H.D. Perry
Chairman
Vancouver Port Corporation
Ganges, B.C.

James B. Powers
President and General Manager
Labrador Construction Co. Ltd.
St. John's, Nfld.

Wallace S. Turnbull, Q.C.
Partner
Clark, Drummie & Company
Saint John, N.B.

Robert H. Vandewater
Vice President and Sr. Account Executive
Wood Gundy Inc.
Winnipeg, Man.

Officers of the Corporation

The Honourable A.R. Huntington
Chairman

William Marsh
Vice-Chairman

Jean Michel Tessier
President and Chief Executive Officer

Hassan J. Ansary
Executive Vice President

Camille A. Guérin
Vice President, Finance and Administration

T.A. Lauzon
Senior Port Manager

Christos Sampson
Director General, Police & Security

Thomas E. Gallagher
Director, Senior Counsel
Common Law

Pierre Woods
Director, Senior Counsel
Civil Law

Roza Aronovitch
Corporate Secretary

Executive Committee

Chairman:	The Honourable A.R. Huntington
Vice-Chairman:	William Marsh
Members:	Dr. John Balkwill
	Ronald Corey
	Captain H.D. Perry
	Jean Michel Tessier
	Robert H. Vandewater

Audit Committee

Chairman:	Robert H. Vandewater
Members:	Ronald Corey
	A.R. "Sandy" MacLean
	C. Peter MacLean
	James B. Powers

Corporate Planning and Budget Committee

Chairman:	James B. Powers
Members:	Robert Dowling
	Richard K. Lester
	Arnold E. Masters
	Wallace S. Turnbull

Police Committee

Chairman:	Brian Keple
Members:	D. Cassidy (Member at large)
	The Honourable K.A. Flanigan (Member at large)
	The Honourable A.R. Huntington
	Donald A. Parker
	Jean Michel Tessier
	Wallace S. Turnbull